Report 98

Directors' Report and Accounts 1998

3140769

The Rank Group Plc

This document contains the Directors' Report, the Remuneration Report, the Accounts and the Report of the Auditors for the year ended 31 December 1998.

The Chairman's Statement and the Acting Chief Executive's and Finance Director's Reviews are contained in a separate document – Review 98 ("the Review").

Contents

The Directors submit their Report and Statement of Accounts for the year ended 31 December 1998.

Principal Activities and Business Review

Rank is one of the UK's leading leisure and entertainment companies and an international provider of services to the film industry. Its leisure and entertainment activities include Hard Rock Cafes and global rights to the Hard Rock brand, gaming, cinemas, nightclubs, themed bars, pub restaurants and multi-leisure centres, and holiday resorts. Rank also owns film processing and video duplication and distribution facilities and has a 50% investment in Universal Studios Escape, a major theme park and development at Orlando, Florida. Rank operates primarily in the United Kingdom and North America, although it also has activities in continental Europe and other parts of the world.

In March 1998, Rank acquired Parkdean Holidays, a UK holiday park operator, for £38m. Also in March 1998, Rank disposed of freehold property for £161m to a joint venture with The British Land Company PLC. The Group is also actively pursuing the sale of the Resorts USA business, and a substantial provision has been made to reduce the book value of its assets.

An analysis of turnover, profit, operating assets and net cash flow by business activity is given on pages 24 and 25. The Group's continuing activities and businesses are reported on in the Review.

Result and Dividends

Loss before tax for the year was £51m (1997 profit £260m). Loss for the year after tax and minority interests was £109m (1997 profit £193m).

The Directors recommend a final dividend of 12.75p per Ordinary share which, together with the interim dividend of 5.75p already declared, makes a total for the year of 18.50p per Ordinary share (1997 18.00p). Subject to approval at the Annual General Meeting, the final dividend will be paid on 30 April 1999 to those shareholders whose names are on the register on 6 April 1999.

Fixed Assets

The Directors have considered the total net book value of land and buildings and are of the opinion that it is not significantly different from market value at 31 December 1998.

Share Capital

Details of the new Ordinary shares issued pursuant to the exercise of options under Rank's share option schemes are set out in note 23 on pages 35 and 36. Note 23 also contains details of the Ordinary shares issued pursuant to the conversion of the Company's Convertible Preference shares and scrip dividend elections made during the year.

A resolution will be proposed at the Annual General Meeting to authorise the Directors to allot and grant rights over the unissued share capital and to authorise the Directors to allot and grant rights over Ordinary shares for cash up to a maximum nominal amount of £3,867,941 representing 5% of the issued Ordinary share capital, without first making a pro rata offer to all existing Ordinary shareholders. A similar resolution was passed last year.

A resolution will also be proposed at the Annual General Meeting to authorise the Company to purchase up to 10% of its Ordinary shares at or between the minimum and maximum prices specified in the resolution set out in the notice of meeting. The authority would only be exercised by the Directors if they considered it to be in the best interests of shareholders generally and if the purchase could be expected to result in an increase in earnings per share. A similar resolution was passed last year.

Directors

The current Directors of the Company are listed on page 13 of the Review with biographical details. All of them were Directors of the Company throughout the year, except Oliver Stocken who was appointed a Director with effect from 1 October 1998. John Garrett and Andrew Teare resigned as Directors on 2 February and 28 October 1998 respectively. The Company has announced the appointment of Mike Smith, aged 52, a director of Ladbroke Group Plc, as its new Chief Executive, and he will join the Board no later than 30 April 1999.

Oliver Stocken (a member of the Audit Committee) will retire at the Annual General Meeting and, being eligible, will offer himself for re-appointment; he has no service contract with the Company.

Hugh Jenkins and Douglas Yates will retire by rotation at the Annual General Meeting and, both being eligible, will offer themselves for re-appointment. Hugh Jenkins has no service agreement with the Company. Douglas Yates has a service agreement with the Company terminable by either party on not less than two years' notice.

The emoluments of the Directors are shown in note 30 on page 38. Details of their remuneration, their interests in shares of the Company and their share options are contained in the Remuneration Report on pages 3 to 6.

Human Resources

The Company values the contribution that its employees make to the success of the business. Substantial investment is made in the training, development and motivation of staff with particular focus on ensuring customer satisfaction through the consistent achievement of high standards of personal care and service. The involvement of employees in the success of the business is encouraged through Company wide communications and consultation programmes.

The Company endorses the active application of equal opportunities policies and programmes to provide fair and equitable conditions for all employees regardless of sex, family status, religion, creed, colour, ethnic origin, age, disability or sexual orientation.

Payment of Suppliers

The Company and its subsidiaries agree terms and conditions for their business transactions with their suppliers. Payment is then made on these terms, subject to the terms and conditions being met by the supplier.

Significant Shareholdings

At the date of this report the Company is aware or has been notified of holdings or interests of more than 3% of the Company's issued Ordinary share capital by Schroder Investment Management Limited (79,245,686 – 10.24%), UBS UK Holding Limited and subsidiaries (78,128,018 – 10.10%), Chase Nominees Ltd (70,511,948 – 9.11%), Prudential Portfolio Managers Limited (37,268,253 – 4.82%), AXA-UAP S.A. (31,870,924 – 4.12%), Franklin Resources Inc (31,049,470 – 4.01%), Halifax plc (24,840,114 – 3.21%) and Legal & General Investment Management Ltd (24,590,594 – 3.18%).

The Company is not aware of any other person who is interested whether directly or indirectly in 3% or more of the issued Ordinary share capital of the Company.

Charitable and Political Donations

Charitable donations made in the UK during the year amounted to £180,000 (1997 £169,000). Overseas companies supported a variety of local and national charities and, in particular, Hard Rock Cafe International Inc. donated approximately US$565,000 (1997 US$835,000) continuing its focus on humanitarian and environmental causes. The Company made no political donations in the year.

Year 2000

The Company and its subsidiaries have conducted reviews of the issues which might be raised by the Year 2000, in relation to installed computer systems, software applications and other business systems or equipment containing embedded microchips that have date sensitive programmes that may not properly reflect or recognise the Year 2000. This review is described in more detail on page 15. On the basis of this review, the Directors believe that adequate steps are being taken to accommodate this issue.

Auditors

Following the merger of Price Waterhouse and Coopers & Lybrand from 1 July 1998, Price Waterhouse resigned as auditors of the Company in favour of the new firm PricewaterhouseCoopers and the Directors appointed PricewaterhouseCoopers to fill the casual vacancy created by the resignation. Special notice has been received in accordance with sections 379 and 387(3) Companies Act 1985 of a resolution that PricewaterhouseCoopers be reappointed as auditors of the Company and this will be proposed at the Annual General Meeting.

By Order of the Board

Charles Cormick
Secretary, The Rank Group Plc, Registered No. 3140769
Registered Office:
6 Connaught Place, London W2 2EZ

17 February 1999

The Board has established a Remuneration Committee with formal terms of reference which include making recommendations on the Company's framework of executive remuneration and its cost, and determining on behalf of the Board the specific remuneration, benefits and employment packages of the Chairman of the Company and its executive Directors.

The Remuneration Committee

The Remuneration Committee is comprised solely of non-executive Directors who bring a wide range of experience from other organisations. The Committee is chaired by Peter Jarvis, Chairman of Debenhams plc and previously Chief Executive of Whitbread Plc, and its other members are Hugh Jenkins, previously Chairman of Thorn plc, and John Sunderland, Group Chief Executive of Cadbury Schweppes plc. They have no personal financial interest other than as shareholders in the matters to be decided, no potential conflict of interest arising from cross directorships and no day to day involvement in running the business of the Group.

The Committee regularly reviews the Company's remuneration policies and practices to enable it to make appropriate recommendations to the Board. In determining appropriate remuneration packages, the Committee consults with both internal and external professional advisers.

The Chairman and the Chief Executive are in attendance at Committee meetings except for when their own remuneration is being considered.

Company Policy on Executive Directors' Remuneration

During the year the Committee reviewed and substantially confirmed its policy on executive Directors' remuneration, which is designed to ensure that the Chairman and executive Directors are rewarded competitively in relation to other companies in order to attract, retain and motivate them to meet the reasonable expectations of shareholders. The principal elements of the policy, which has been approved by the Board, are as follows:

- All benefits including pensions will be provided on the basis that they are consistent with good practice among comparable companies and are market competitive.

- Base salaries will aim to be market competitive with similar positions in comparable companies. Due to the nature of the Rank Group, there is no company which is directly comparable, and therefore pay comparisons of individual positions are made against similar positions in a range of companies of similar size, complexity and with similar business interests. It is the Company's policy to pay base salary at the median level for like positions within this group of companies.

- In addition to base salary, Directors will be given the opportunity to receive additional remuneration based on their contribution to the overall performance of the Company.

- Performance linked remuneration will normally be measured on performance over not less than one complete financial year, and there will be a greater emphasis on performance over three years.

- The balance between base salary, annual bonuses and longer term incentive arrangements will be adjusted to conform to market competitive practice amongst comparable companies, using a total remuneration methodology.

- Longer term incentives will be paid in Ordinary shares of the Company and will not be pensionable. Annual incentives will be paid in cash and will only be pensionable for executive Directors who were members of the Board prior to 1 January 1996. All new external recruits will not have this benefit.

- Share options will continue to play a part in Rank's remuneration policy. The number and frequency of issue will reflect market competitive practice.

- All Directors will be actively encouraged to build up and retain in their own right a holding of not less than one times annual salary in Ordinary shares of the Company.

- Executive Directors may draw a pension without actuarial reduction from age 60 and must retire at the age of 62.

Annual Salary and Benefits

The Committee continues to follow the broad principle that base salaries should be paid at the median level in comparison with comparable jobs in selected relevant companies. For guidance in determining base salaries, the Remuneration Committee uses published job matched surveys undertaken by professional remuneration consultants and, in addition, in 1998 the Remuneration Committee again commissioned its own independent review of remuneration of Rank Directors.

Benefits include a car, or cash allowance in lieu, and life, disability and health insurance.

Annual Bonus

The annual bonus scheme operated in the year provided for cash bonuses up to a maximum payment of 50% of base salary. The criteria of the scheme comprised pre-tax profit, an element relating to the amount of capital employed and normalised earnings per share growth.

The Committee considers that the performance conditions applying to annual bonus schemes are relevant, stretching and designed to enhance the business and that this results-driven approach is in the interests of shareholders.

No bonuses were earned by Directors in the year.

Remuneration

The remuneration of the Chairman and all Directors in the year is detailed below.

Pensions and Pensionable Remuneration

Each executive Director is a member of Rank's Pension Plan which is a defined benefit scheme and provides, subject to Inland Revenue limits, for a pension at age 60 equal to 1/30th of the individual's pensionable earnings multiplied by his pensionable service, subject to a maximum of twenty years. Pensionable earnings are defined as PAYE earnings of an individual.

In addition to base salary, pensionable scheme salary has included payments made to Directors under annual bonus schemes; the Committee considered that as bonus payments are a variable performance related component of Directors' remuneration, they should be pensionable while base salaries are set in relation to only median salaries in comparable companies. This policy was however reviewed by the Committee in 1996 and it was decided that annual bonus payments made to future executive Directors would not be pensionable. No annual bonus payments were made to executive Directors in respect of 1998.

The cash values of other benefits in kind are not included within pensionable scheme earnings and this element of remuneration is non-pensionable.

Pension entitlements have been disclosed in accordance with the requirements of the Listing Rules of the London Stock Exchange and, in particular details are given of the transfer value (less Directors' contributions) of the relevant increase in accrued benefit, calculated in accordance with Actuarial Guidance Note GN11 but making no deduction for any underfunding, as at the end of the period.

Directors' Emoluments Chairman and executive Directors	Basic salary 1998 £000	Basic salary 1997 £000	Benefits 1998 £000	Benefits 1997 £000	Bonus 1998 £000	Bonus 1997 £000	Total emoluments excluding pensions 1998 £000	Total emoluments excluding pensions 1997 £000
John Garrett[1]	77	254	12	12	–	50	89	316
Sir Denys Henderson	271	250	20	19	–	–	291	269
Andrew Teare[2]	381	432	35	16	–	64	416	512
Nigel Turnbull	252	238	21	23	–	35	273	296
Douglas Yates	292	238	12	14	–	35	304	287

Non-executive Directors' Emoluments	1998 £000	1997 £000
Peter Jarvis	29	29
Hugh Jenkins	25	25
Christine Morin-Postel	25	25
Cob Stenham	29	29
Oliver Stocken[3]	6	–
John Sunderland[4]	25	–

Pension Entitlements Defined Benefit Arrangements	Accrued entitlement at 31.12.98 £000 pa	Additional pension earned during year ended 31.12.98 £000 pa	Transfer value of increase in pension (less Directors' contributions) £000	Directors' contributions paid during year ended 31.12.98 £000
John Garrett[1]	74	17	238	1
Andrew Teare*[2]	112	4	58	4
Nigel Turnbull	108	6	72	14
Douglas Yates	151	4	36	16

*includes transferred-in benefits from previous employer's pension arrangements

Defined Contribution Arrangements	Contributions paid during year ended 31.12.98 £000
Andrew Teare[2]	209

[1] resigned as a Director on 2 February 1998, and as an employee on 10 April 1998
[2] resigned on 28 October 1998
[3] appointed on 1 October 1998
[4] appointed on 1 January 1998

Share Option Schemes

Rank has operated an executive share option scheme for Directors and other senior managers since 1985. In 1997, the Committee decided that no further grants of executive share options would be made to members of the Executive Committee, with the exception of new recruits, whilst they participate in a long term incentive plan, although the Committee reserved the right to review this decision in the light of competitive market practice and appropriateness of Rank's long term incentive arrangements in total. As the Executive Committee will not be participating in a long term incentive plan with a performance period commencing in 1999 (see long term incentive plan on page 6) the Committee agreed that it was appropriate that the Executive Committee, including executive Directors, should be granted further executive share options in 1999 within Inland Revenue limits.

The Company's policy with regard to the level of allocation and frequency of options to those employees below the Executive Committee is one of regular annual grants of smaller allocations in line with the recommendations of the Greenbury Report.

Rank has also operated Save As You Earn Option Schemes since 1985 which are now generally open to all full time employees and Directors. Inland Revenue rules limit the maximum amount which can be saved to £250 per month. Options are granted to acquire the number of shares that the total savings will buy when the savings contracts mature, in accordance with the rules of the scheme.

The Directors' interests in shares or stocks of the Company, including options to purchase Ordinary shares under the terms of the Group's Executive Share Option Schemes ("ESOS") and Share Saving Schemes ("SAYE") are given below:

	31 December 1998					1 January 1998 (or the date of appointment, if later)			
	Ordinary shares	Preference shares	ESOS	SAYE	Exercise price (p)	Ordinary shares	Preference shares	ESOS	SAYE
Sir Denys Henderson	52,972	10,000	–	–	–	50,000	10,000	–	–
Peter Jarvis	10,113	–	–	–	–	10,000	–	–	–
Hugh Jenkins	9,436	10,000	–	–	–	2,300	10,000	–	–
Christine Morin-Postel	–	–	–	–	–	–	–	–	–
Cob Stenham	20,890	–	–	1,009	341.47	20,167	–	–	1,009
	–	–	–	5,080	271.58	–	–	–	–
Oliver Stocken	10,000	–	–	–	–	10,000	–	–	–
John Sunderland	1,058	–	–	–	–	1,000	–	–	–
Nigel Turnbull	37,602	21,000	161,931	–	372.92	36,299	21,000	161,931	–
	–	–	41,261	–	426.84	–	–	41,261	–
	–	–	–	1,009	341.47	–	–	–	1,009
	–	–	–	2,231	349.46	–	–	–	2,231
Douglas Yates	38,795	–	209,164	–	372.92	37,400	–	209,164	–
	–	–	–	3,030	341.47	–	–	–	3,030
	–	–	–	1,974	349.46	–	–	–	1,974

As at 31 December 1998 Nigel Turnbull and Douglas Yates each held an option over 18,897 Ordinary shares (1997 Nil) granted under the Company's Long Term Incentive Plan, ("LTIP").

Options to subscribe for Ordinary shares of the Company granted to Directors during the year ended 31 December 1998 are included in the table below:

	Granted			Exercised		Option price
	LTIP	ESOS	SAYE	ESOS	SAYE	(p)
Cob Stenham	–	–	5,080	–	–	271.58
Nigel Turnbull	18,897	–	–	–	–	0.00
Douglas Yates	18,897	–	–	–	–	0.00

None of the Directors realised a gain on the exercise of share options during the year.

In June 1998 the number of shares under option and the option price were adjusted, with the approval of the Inland Revenue, as a result of the Enhanced Scrip Dividend Alternative offered by the Company in respect of the final dividend payable for the financial year ended 31 December 1997. The tables above have been adjusted for these changes, with 1997 figures restated to provide a clearer understanding of the movements in holdings over the year.

In addition to the above interests, pursuant to the provisions of the Companies Act 1985, each executive Director is deemed to be interested in the Ordinary shares of the Company held by The Rank Group Plc Employee Benefit Trust. At 1 January 1998, 31 December 1998 and at the date of this report the interest was in a total of 390,000 Ordinary shares.

No options lapsed during the year. The market price of an Ordinary share at 31 December 1998 was 231.5p and the range during the preceding 12 months was 409.5p to 205.5p. Options outstanding at 31 December 1998 are exercisable at various dates between 10 February 1998 and 8 September 2005. There were no changes in Directors' interests between 1 January 1999 and the date of this Report. The Company's Register of Directors' interests (which is open to inspection) contains full details of Directors' shareholdings and options to subscribe for shares.

Long Term Incentive Plan

A long term incentive plan was introduced with effect from January 1995 for executive Directors and certain senior managers and this was continued in the year. Each participant, including executive Directors, receives an award under the plan if the Company's growth in normalised earnings per share (defined as earnings per share before exceptional items) exceeds the increase in the UK retail prices index by at least 3% on an annual basis over a performance period of three years. The award consists of a grant of an option over Rank Ordinary shares; the option can be exercised for nil consideration at the end of the two years following the three year performance period. The value of the shares will be related to a percentage of base salary; shares to the value of 10% of salary will be awarded for a 3% compound real growth up to an award of 100% of salary for a 21% compound real growth.

In 1998 Nigel Turnbull and Douglas Yates each received an award in respect of the first performance period commencing 1 January 1995 of an option over 18,897 Ordinary shares, exercisable on or after 19 March 2000, and until 19 March 2005. Former Directors received cash payments in respect of the same period as set out in the table below.

The Committee has decided that the current long term incentive plan should not be continued in 1999. Instead the Committee is considering an alternative long term incentive plan structure, with a performance criteria based on total shareholder return, and if appropriate, a proposal will be placed before shareholders at next year's Annual General Meeting for the introduction of such a plan. The first performance period of any such plan would commence in January 2000.

Long Term Incentive Plan – Cash payments to former Directors	1998 £000
Angus Crichton-Miller	29
Jim Daly	22
John Garrett	69
Terry North	35

Directors' Service Agreements

The Chairman and the executive Directors have service agreements with the Company, but the non-executive Directors do not.

The Chairman has a service agreement with a notice period of one year. The executive Directors have service agreements with notice periods of two years; they are required to retire at age 62.

The Committee considers such lengths of notice periods to be currently appropriate given competitive practice. Rank operates in a very competitive environment and in order to attract and retain key people at senior levels, including executive Directors, the Committee considers that less than a two year period of notice would give inadequate security to the individual concerned, to the Board and to shareholders. However, the Board has determined that future Board executive Directors should have notice periods of one year, although a longer initial notice period may be proposed. Mike Smith will have a service agreement which for the initial two years will be terminable by either party on two years' notice. At the end of the first two years the agreement will thereafter be terminable on one year's notice.

Any Director leaving service at the request of the Company (other than for gross misconduct) will be provided with compensation related to age, service and the circumstances relating to his departure. The duty to mitigate will also be taken into consideration when determining any severance payment. These principles were adhered to by the Committee when determining the compensation payable to Andrew Teare in respect of his departure from the Company. He received a lump sum gross payment of £396,665 and the Company contributed £477,400 to enhance his pension benefits under the Rank Pension Plan.

Non-executive Directors

The remuneration of non-executive Directors is determined by the Board. The remuneration consists of annual fees of £25,000 and additional fees of £4,000 for chairing the Audit and Remuneration Committees.

The Chairman and the non-executive Directors do not participate in the annual bonus scheme, any company pension scheme, the Executive Share Option Scheme or the Long Term Incentive Plan.

On behalf of the Board

Sir Denys Henderson
Chairman

Peter Jarvis
Chairman of the Remuneration Committee

The policy of the Board is to manage the affairs of the Company in accordance with the Principles of Good Governance and Code of Best Practice as set out in Section 1 of the Combined Code annexed to the Listing Rules of the London Stock Exchange.

Application of Principles of Good Governance

Directors

The Directors believe that it is essential that the Company should be led and controlled by an effective Board. To this end, regular Board meetings are held (not less than eight meetings in a year) and the Board receives a steady flow of information to enable it to discharge its duties. There is a formal schedule of matters reserved for the Board's decision, and all Directors have access to the advice and services of the Company Secretary. Training programmes, including induction into the operations of the Company, are developed for newly appointed Directors. The current composition of the Board is detailed on page 13 of the Review.

The Board has established the following Committees, each with a formal constitution, to facilitate its operations:

The Audit Committee

The Audit Committee meets not less than three times a year and assists the Board in reviewing the effectiveness of internal financial control systems. The Committee also reviews financial statements to be published externally before their submission to the Board, to ensure they present a fair assessment of the Group's position and prospects. It also authorises any change in accounting policies. The Committee meets at least annually with the auditors without executive management being present.

The Finance Committee

The Finance Committee is an executive committee to which certain specific authorities have been delegated by the Board, principally in respect of capital expenditure authorisation and financing of the Group.

The Nomination Committee

The Nomination Committee proposes Board appointments, both executive and non-executive, for approval by the Board. Decisions on Board appointments are a matter for the Board.

The Remuneration Committee

The Remuneration Committee meets not less than twice a year and is responsible for determining the remuneration packages of the Chairman, the executive Directors, and other members of the Executive Committee.

The composition of each of the above Committees is given on page 13 of the Review. The Nomination Committee which proposed the appointment of Mike Smith as Chief Executive comprised the Chairman, Peter Jarvis and Cob Stenham.

The Executive Committee

The Executive Committee is not a committee of the Board. Its role is to assist the Chief Executive in fulfilling his responsibilities for directing and promoting the profitable operation and development of the Group, consistent with the primary objective of creating long term shareholder value. It currently consists of the Acting Chief Executive, Finance Director, Company Secretary, Human Resources Director and certain Managing Directors of operating businesses.

Directors' Remuneration

Details of Directors' remuneration, and the process for its determination, are contained in the Remuneration Report set out on pages 3 to 6.

Relations with Shareholders

The Company maintains regular dialogue with its institutional shareholders and city analysts with a variety of presentations and visits being made throughout the year, and regular meetings are held with principal shareholders. All shareholders are welcome to attend the Annual General Meeting and private investors are encouraged to take advantage of the opportunity given to ask wide ranging questions.

Accountability and Audit

The means by which the Board applies the principles of accountability and audit are set out overleaf.

Compliance with Code Provisions

The Company has throughout the year complied with the Code provisions set out in Section 1 of the Combined Code save as follows:

Code provision A.2.1

The Board carefully considered the proposal that a senior independent director should be identified in the annual report and concluded that this would be inappropriate given that the Chairman of the Company and the chairmen of the Audit and Remuneration Committees are already identified in the Review.

Code provision A.6.2

The existing Articles of Association of the Company do not require all Directors to submit themselves for re-election at intervals of not more than three years although the effect of the current retirement by rotation provisions has been that in recent years Directors have been re-elected every three years.

An amendment to the Articles of Association is being proposed at this year's Annual General Meeting to ensure compliance with this provision.

Code provision B.1.7

The Board during the year set as an objective all future Board executive appointees having notice periods of one year, although a longer initial notice period may be provided.

Internal financial control

As permitted by the London Stock Exchange, the Company has complied with Code provision D.2.1 on internal control by reporting on internal financial control in accordance with the guidance for directors on internal control and financial reporting issued in December 1994.

The Directors acknowledge that they are responsible for the Group's system of internal financial control, which is designed to provide reasonable but not absolute assurance against material misstatement or loss.

Considerable importance is placed on maintaining a strong control environment. In particular, there is a simple organisational structure with clearly drawn lines of accountability and delegation of authority; adherence to specified codes of conduct is required at all times; and the Board actively promotes a culture of quality and integrity. Risks are identified and appraised both formally, through the annual process of preparing business plans and budgets, and informally through close monitoring of operations. Financial results and various key business statistics are reported regularly throughout the year and variances from approved plans and budgets are monitored and investigated. Detailed control procedures exist throughout the Group's operations and compliance is monitored by management, the Group's internal auditors and, to the extent they consider necessary to support their audit report, the external auditors.

On behalf of the Board, the Audit Committee has reviewed the effectiveness of the system of internal financial controls during the year ended 31 December 1998. This has included consideration of a formal Group-wide risk assessment by the Executive Committee, the results of a controls self-certification exercise throughout the Group, and reports from the Group's internal and external auditors.

Going concern

After reviewing the Group's budget for 1999 and its medium term plans, the Directors are confident that the Company and the Group have adequate financial resources to continue in operational existence for the foreseeable future. They have therefore continued to adopt the going concern basis in preparing the accounts.

	First half			Second half			Full year		
	1998 £m	1997 £m	Change %	1998 £m	1997 £m	Change %	1998 £m	1997 £m	Change %
Turnover	901	856	5.3	1,156	1,156	–	2,057	2,012	2.2
Operating profit before exceptional items	101	90	12.2	179	220	(18.6)	280	310	(9.7)
Income from associates	10	7	42.9	13	13	–	23	20	15.0
Income from Rank Xerox	–	20	n/a	–	–	–	–	20	n/a
Interest – managed business	(27)	(30)	10.0	(21)	(17)	(23.5)	(48)	(47)	(2.1)
Profit before tax and exceptional items	84	87	(3.4)	171	216	(20.8)	255	303	(15.8)
Profit (loss) before tax and after exceptional items	94	85	10.6	(145)	175	n/a	(51)	260	n/a
Earnings per share before exceptional items (pence)	7.4	6.9	7.2	15.6	19.6	(20.4)	23.0	26.5	(13.2)

Summary of results

Turnover for the year improved by 2.2%, or by 2.9% at constant exchange rates. Deluxe increased turnover by 4.0%, Hard Rock by 1.7% and Leisure by 5.6%. Holidays turnover decreased by 3.3% as a result of Butlins and Resorts USA.

Improvement in operating profit in the first half was more than offset by the second half decrease. Operating profit before exceptional items for the year fell to £280m, or £282m at constant exchange rates, a decrease of 9.0%. The significant factors were the problems associated with the duplication of Titanic at Deluxe; poor weather affecting UK holiday bookings and the temporary closure of Butlins sites; and, with the exception of Titanic, the lack of any major film releases at Odeon. Operating profit was also reduced by £10m due to the sale and leaseback transaction which benefited the interest charge by a similar amount.

Profit before tax and exceptional items fell by 15.8% to £255m as the increase in profit from associates did not compensate for the reduced operating profit and loss of income from the Rank Xerox investment which was sold in 1997.

Loss before tax and after exceptional items was £51m (1997 profit £260m) reflecting the 1998 exceptional items.

Earnings per share before exceptional items decreased by 13.2% to 23.0p.

An unchanged final dividend of 12.75p, making 18.5p for the year, is proposed. This is an increase of 2.8% for the year.

	First half		Second half		Full year	
Non-operating and exceptional items	1998 £m	1997 £m	1998 £m	1997 £m	1998 £m	1997 £m
Exceptional losses within operating profit	–	–	(98)	–	(98)	–
Non-operating profits (losses)	10	(2)	(218)	(41)	(208)	(43)

Exceptional items include a £98m impairment charge under the new Accounting Standard FRS11 which relates mainly to the Oasis Lakeland Holiday Village, the former Butlins sites at Ayr and Pwllheli (being redeveloped as Haven sites), and Tom Cobleigh pub restaurants within Leisure.

Within non-operating items is a provision for loss on disposal of £213m of which £141m relates to the Resorts USA holiday business. The balance is mainly attributable to those leisure properties, principally nightclubs and bingo clubs, from which we have chosen to withdraw.

Divisions

All references to operating profit are to operating profit before exceptional items.

Deluxe	First half 1998 £m	First half 1997 £m	First half Change %	Second half 1998 £m	Second half 1997 £m	Second half Change %	Full year 1998 £m	Full year 1997 £m	Full year Change %
Turnover	262	251	4.4	389	375	3.7	651	626	4.0
Operating profit	29	20	45.0	59	68	(13.2)	88	88	–

Deluxe continued to benefit from the increasing number of films and videos released by the Hollywood studios. Turnover was up 5.3% and operating profit up 2.3% at constant exchange rates.

In Film Laboratories, worldwide volume increased by 2.6% as the Hollywood studios continued to order more prints of each film, driven by the continuing growth in the number of cinema screens and the continuing trend towards the immediate wide release of films. Profit improved by 8.8% at constant exchange rates with more than doubled profits in the UK, arising from improved productivity, and a steady performance in North America. A new contract was recently signed with Sony Pictures for North American film processing which will benefit Deluxe in the future.

US video volume increased by 11.6% but operating profit was marginally down. The extremely short lead time for production and the magnitude of the order for Titanic (which was three times the previous largest order the US business had ever produced) caused production and packaging problems which required a significant portion of the work to be subcontracted which resulted in revenue with little profit contribution. Re-engineering to improve productivity continues with the major benefit anticipated to come through later in 1999. In Europe there were substantial profit improvements from the continental European territories, particularly Spain, but overall video profit was down compared to the strong performance in 1997 as a result of a decline in UK client demand. The addition of Twentieth Century Fox to the UK client list in mid 1999 will bring new volume to the UK operations.

During the year Deluxe shipped over 7 million DVDs on behalf of its customers and is actively pursuing arrangements to provide its customers with mastering and production facilities.

Pinewood Studios improved profits in 1998. Whilst UK film production was down in the year, Pinewood was very busy in the last quarter and has several major productions continuing into the current year. Filming of the new James Bond movie has also just commenced. Additional stages are currently being constructed and will be available from August.

Hard Rock	First half 1998 £m	First half 1997 £m	First half Change %	Second half 1998 £m	Second half 1997 £m	Second half Change %	Full year 1998 £m	Full year 1997 £m	Full year Change %
Turnover	116	109	6.4	123	126	(2.4)	239	235	1.7
Operating profit	23	20	15.0	25	27	(7.4)	48	47	2.1

Turnover for Hard Rock improved by 1.7% or 3.0% at constant exchange rates and operating profit increased by 2.1%.

The Company opened new cafes in the year at Philadelphia, Edinburgh, Salt Lake City, Lake Tahoe, Cleveland, Kona, San Diego, St Louis and Rome. Turnover from these nine new cafes more than offset the overall decline of comparable units. In addition, the new larger Orlando cafe was opened in the CityWalk entertainment zone at Universal Studios Escape in December. Gross margins for the year improved by 0.6% in the restaurant and 1.8% on merchandise. Food and beverage turnover represented 52% of cafe turnover with merchandise turnover contributing 48% (1997 48%: 52%). Like-for-like cafe turnover decreased by 10.6% for the year. The decline in turnover at comparable units is partially attributable to continued construction at Universal Studios Escape, Orlando, and major construction work at the New York and London cafes. The new Orlando cafe should begin to benefit from its relocation when the new theme park opens in May 1999.

In 1998 Hard Rock profit included £4m from franchise sales, including South America and a Hard Rock Hotel Casino deal in Biloxi, Mississippi in the US. This compared with the £6m received in 1997. Additionally, in 1998 income from brand extension activity, including the initial income from Hard Rock Beer and veggie burgers, contributed £3m.

In 1999 Hard Rock plans to open five new cafes including the first NBA City restaurant in Orlando. From January 1999 new merchandise was available in many of the company's stores with initial customer reaction being positive.

Holidays	First half 1998 £m	First half 1997 £m	First half Change %	Second half 1998 £m	Second half 1997 £m	Second half Change %	Full year 1998 £m	Full year 1997 £m	Full year Change %
Turnover									
UK Holidays	164	160	2.5	273	279	(2.2)	437	439	(0.5)
US Holidays	26	39	(33.3)	29	31	(6.5)	55	70	(21.4)
	190	199	(4.5)	302	310	(2.6)	492	509	(3.3)
Operating profit									
UK Holidays	5	6	(16.7)	51	65	(21.5)	56	71	(21.1)
US Holidays	2	2	–	(1)	(1)	–	1	1	–
	7	8	(12.5)	50	64	(21.9)	57	72	(20.8)

In the UK, turnover was virtually unchanged but profit was reduced to £56m reflecting the economic environment, the poor summer weather and, most significantly, the disruption and closures at Butlins. The results reflected reduced trading at Butlins as a result of the effect of closure for part of the year for construction work; poor results at Ayr and Pwllheli (where no investment had been made as conversion to Haven parks was anticipated); and operational changes required ahead of the relaunch in 1999.

Skegness, Minehead and Bognor Regis will reopen as Butlins Family Entertainment Resorts in April 1999 with improved new accommodation, entertainment and all weather facilities under large Skyline Pavilions. The other two Butlins centres at Ayr and Pwllheli will open as Haven All Action parks for Easter 1999. Current advanced bookings for the three Family Entertainment Resorts for 1999 are good, some 17% ahead in value for comparable periods in 1998.

Haven successfully integrated the Parkdean business into its portfolio and the acquisition's trading performance and profitability met expectations. Haven's UK performance was also supported by record profits from caravan sales, but its like-for-like business was not immune from the difficult trading environment and profits fell slightly. Haven Europe continued to perform well, increasing turnover and profitability on a like-for-like basis, and further benefiting from the acquisition of two campgrounds in the Vendée region of France halfway through the year.

Warner turnover improved by 19% and operating profit by 15% as a result of comparable revenue improving by 3% and a full year contribution from Littlecote House and Nidd Hall. Cricket St Thomas, purchased in 1998, will be an excellent addition to the current 11 sites when it opens in Autumn 1999.

Oasis turnover was up over 75% (albeit against a comparative period last year when it was only open for six months) leading to a profit contribution of just over £1m for its first full year of trading.

Resorts USA pursued a strategy of running the business for cash and reducing costs. Profit was unchanged on last year, but £12m of cash was generated (1997 £2m; 1996 (£11m)). The Group is actively pursuing the sale of this business and a substantial provision (£141m) has been made to reduce the book value of assets.

Leisure	First half 1998 £m	First half 1997 £m	First half Change %	Second half 1998 £m	Second half 1997 £m	Second half Change %	Full year 1998 £m	Full year 1997 £m	Full year Change %
Turnover									
Gaming	199	182	9.3	203	201	1.0	402	383	5.0
Entertainment	134	112	19.6	139	144	(3.5)	273	256	6.6
	333	294	13.3	342	345	(0.9)	675	639	5.6
Operating profit									
Gaming	25	25	–	28	32	(12.5)	53	57	(7.0)
Entertainment	19	22	(13.6)	18	28	(35.7)	37	50	(26.0)
	44	47	(6.4)	46	60	(23.3)	90	107	(15.9)
Operating profit Pre sale and leaseback									
Gaming	26	25	4.0	32	32	–	58	57	1.8
Entertainment	21	22	(4.5)	21	28	(25.0)	42	50	(16.0)
	47	47	–	53	60	(11.7)	100	107	(6.5)

All references to operating profit are to operating profit before exceptional items and before sale and leaseback rents unless otherwise stated.

Turnover across the division was up 5.6% with increases in both Gaming and Entertainment. Divisional operating profit was down 6.5%. The underperformance occurred mainly within Entertainment where operating profit was down 16% while Gaming operating profit improved by 1.8%.

Gaming

Mecca Bingo maintained UK market share at 34% and profits were up by 22%. Although admissions were level, spend per head increased by some 8.2% in the UK clubs compared to last year. Like-for-like turnover increased by 3%. During the year six new clubs opened but the total UK estate reduced by seven to 127 as management took action to dispose of older units.

Grosvenor's provincial casinos increased market share and significantly increased their trading profit contribution. Overall, Grosvenor casinos produced lower operating profit as a result

of the increase in gaming duty of some £2m, £1m profit lost due to refurbishment of the Grosvenor Victoria casino in London and a lower profit contribution from the Clermont Casino where custom was affected by the Far East economic crisis. The relocated Newcastle casino opened very successfully in January 1999, and a new casino at Salford, Manchester, resulting from a new licence application, will open in mid 1999.

Entertainment

The cinema industry added 14% more screens in 1998 (Odeon added 11%) but, compared to a strong film line-up in 1997, Titanic was the only major blockbuster during the year. This resulted in a 3% drop in year on year admissions across the industry. Admissions at Odeon fell by 4.7%, a figure exacerbated by the fact that Odeon had five key London sites closed for part of the year for major refurbishment and rebranding work. Whilst retail spend per customer increased by 8.2% over 1997, overall turnover for the year was flat, reflecting lower admissions, with operating profit falling by some 15%. However, roll-out of Odeon's new brand image is proving popular with customers and, coupled with the launch of a website to accommodate on-line bookings – the first in the UK – and the creation of a technically advanced call-centre, Odeon continues to lead the UK cinema market. During 1998, five new multiplexes were opened, with a further two planned for 1999.

Consistent with the industry at large, Rank's nightscene business continued to experience difficulties. Turnover was up 4% driven by new openings, but profit fell 30%. The nightclubs, which accounted for 79% of nightscene turnover in 1998, saw like-for-like sales falling by 5.3% despite increased promotional spend which depressed margins. The overall trading position of the business has been adversely affected by the decline in the nightclub market which has lost ground to super pubs and late night bars, most of which now trade with late licences. During 1998, as a result of a review by the new management team, a number of venues were put up for sale, with significant progress to date. In 1998, five venues were sold and another three closed. Since the beginning of 1999, contracts have been exchanged for the sale of a further 14 venues. This will result in a business which is more focused on large competitive nightclubs and live entertainment bars (Jumpin' Jaks), with a move away from more general family entertainment.

Tom Cobleigh, which now has 85 pub restaurants (15 opened during 1998), improved underlying results by 55% before reorganisation and non-recurring costs.

Universal Studios Escape

Rank Share	First half 1998 £m	First half 1997 £m	First half Change %	Second half 1998 £m	Second half 1997 £m	Second half Change %	Full year 1998 £m	Full year 1997 £m	Full year Change %
Turnover	58	55	5.5	56	57	(1.8)	114	112	1.8
Operating profit	13	10	30.0	14	15	(6.7)	27	25	8.0

The existing theme park, Universal Studios Florida, had another good year with turnover up 1.8% and operating profit up 8% due to higher admission prices and franchise fees. Whilst paid attendances declined 2%, total turnstile attendance rose 10%, driven by a promotion offering second day free admission. Operating profit included £5m of franchise fees from the licensing of attraction rights to Universal Studios Japan (1997 £3m from licensing to Universal Studios Hollywood).

Universal have created a new vacation destination in Orlando, Florida combining the creativity of Hollywood with the greatest stories of all time. The vacation destination Universal Studios Escape will open in May 1999 and will comprise Universal Studios Florida, the existing movie based park, and Islands of Adventure, which is a world of legendary tales, mythical classics and contemporary characters. CityWalk links the two parks and will host a number of eating and entertainment venues, including Hard Rock Cafe, Hard Rock Live! and Rank's first NBA City restaurant. The Portofino Bay Hotel, the first of the resort's new themed on site hotels will be opening in July 1999, followed in 2000 by a Hard Rock Hotel.

Interest

Interest	First half 1998 £m	First half 1997 £m	First half Change %	Second half 1998 £m	Second half 1997 £m	Second half Change %	Full year 1998 £m	Full year 1997 £m	Full year Change %
Interest incurred	(42)	(30)	40.0	(29)	(32)	(9.4)	(71)	(62)	14.5
Imputed interest*	15	–	n/a	8	15	(46.7)	23	15	53.3
Group interest	(27)	(30)	(10.0)	(21)	(17)	23.5	(48)	(47)	2.1
Share of associates and joint ventures	(4)	(3)	33.3	(4)	(2)	100.0	(8)	(5)	60.0
	(31)	(33)	(6.1)	(25)	(19)	31.6	(56)	(52)	7.7
Average (borrowings)	(1,129)	(1,056)		(1,018)	(931)		(1,055)	(985)	

*Imputed interest is in respect of outstanding Rank Xerox proceeds.

Net interest payable for the year was £48m compared with £47m in 1997. Interest incurred was £9m higher. Interest on the higher average borrowings, together with the absence in 1998 of the £5m benefit from the cancellation of interest swaps taken in 1997, was partially offset by increased interest capitalised, primarily on the new Universal theme park. Imputed interest on the outstanding proceeds from the sale of the investment in Rank Xerox was £8m higher. £220m of the outstanding proceeds was received on 30 June 1998 and the final tranche of £220m is due to be received on 30 June 1999.

In March 1998 the Group disposed of 22 Leisure properties to BL Rank Properties Limited ("BLRP"), a 50% joint venture with British Land PLC. The interest charge benefited by around £9m as a result of this transaction.

The underlying average interest rate paid on borrowings was 8.2% compared with 7.9% in 1997. Interest cover, expressed as the ratio of Group operating profit before exceptional items to managed business interest, was 5.8 times compared with 6.6 times in 1997. The fixed charge cover, excluding lease commitments, was 4.1 times compared to 5.0 in 1997.

Exchange Rates
The net translation effect of changes in foreign currencies was to reduce profit before tax and exceptional items by £2m. The principal exchange rate affecting Rank's results is the US dollar/sterling exchange rate, which moved from an average rate for 1997 of 1.64 to 1.66 in 1998. At the year end, the rate was 1.66 compared with 1.65 at the end of 1997.

Taxation
The tax rate on Rank managed businesses, excluding exceptional items, was 22.4%, against 23.2% in 1997. The tax charge benefited from reduced Advance Corporation Tax (ACT) paid as a result of the scrip dividend alternative to the 1997 final dividend and the deferral to April 1999 of the 1998 interim dividend. This led to a cash saving of ACT of £22m. After taking account of the £5m benefit recognised in 1997, the Rank managed businesses' tax rate benefited by 6% in 1998. The overseas tax charge was reduced as a result of available US tax losses.

Earnings
Earnings per share before exceptional items in 1998 were 23.0p compared with 26.5p in 1997. After exceptional items, loss per share was 17.0p (1997 earnings per share of 21.2p).

Geographical Contributions
UK operations contributed 57% of turnover (1997 58%) of continuing operations and 53% (1997 59%) of operating profit before exceptional items. This reflected the reduced contribution from the UK holidays and entertainment businesses. North America contributed 36% of turnover and 38% of operating profit and the Rest of the World, which includes contributions from licence and royalty fees of Hard Rock, made up the balance.

Cash Flow
The net cash inflow from operating activities was £360m compared with £443m for 1997. The year on year decrease of £83m is explained primarily by £30m of lower operating profit (before the non-cash charge for asset impairment) and a £62m adverse change in movement of working capital. This was as a result of significant build up of Deluxe stocks in the year against a reduction last year and Deluxe and Holidays creditors remaining broadly unchanged this year against significant increases last year.

Cash received in 1998 from Universal Studios Escape was £24m, reduced from £33m in 1997, but no distribution was received from investments as the Rank Xerox interest was sold in 1997.

In 1998, tax payments were reduced since the 1997 payments included exceptional tax in respect of 1996, arising from the reorganisation that year.

Dividends paid in 1998 were reduced as a result of the scrip alternative to the 1997 final dividend and the deferral of the 1998 interim dividend.

Investment expenditure increased to £627m as described below and disposals of assets realised £415m (1997 £550m), comprised primarily of a further £220m received from the sale of Rank Xerox and £161m received from BL Rank Properties Ltd following the sale of various properties to the joint venture.

Overall, there was a cash outflow before use of liquid resources and financing for the year of £25m compared with an inflow of £217m in 1997.

Investment Expenditure
In 1998 investment expenditure, comprising capital expenditure, leased assets and acquisitions including debt, totalled £627m compared with £519m in 1997.

Investment expenditure	1998 £m	1997 £m
Deluxe	56	36
Hard Rock	50	31
Holidays	160	136
Leisure	181	214
Other/discontinued	2	–
	449	417
Acquisitions (including acquired debt)	47	43
Universal Studios Escape and Universal Studios Japan	108	59
British Land Joint Venture	23	–
	627	519

In addition to Rank's cash investment in Universal Studios Escape in 1998, an additional £149m was provided by Rank's share of the increase in the Universal partnerships' own borrowings.

Acquisitions (Parkdean and two Belgian casinos), including debt, totalled £47m compared with £43m in 1997 and gave rise to £3m of goodwill.

Capital employed and return on capital

With effect from 31 December 1998, the Group adopted FRS11. As a consequence, a provision for impairment of £98m has been made. In addition, provisions for loss of £213m have been made against the prospective disposal of certain businesses and assets. The impact of these adjustments on capital employed is shown in the tables below.

Net assets by division	Before provisions and impairment £m	Provision for loss £m	Impairment £m	Carrying value 1998 £m	Carrying value 1997 £m	Return on net assets 1998 %	Return on net assets 1997 %
Deluxe	296	–	–	296	274	29.7	32.1
Hard Rock	173	(3)	–	170	116	28.2	40.5
Holidays							
UK	786	(11)	(79)	696	616	8.0	11.5
US	197	(141)	–	56	208	1.8	0.5
	983	(152)	(79)	752	824	7.6	8.7
Leisure							
Gaming	475	(26)	–	449	491	11.8	11.6
Entertainment	383	(32)	(19)	332	369	11.1	13.6
	858	(58)	(19)	781	860	11.5	12.4
Continuing operations	2,310	(213)	(98)	1,999	2,074	14.0	14.9

Capital employed by division	Carrying value £m	Goodwill Total £m	Goodwill Loss in value* £m	1998 £m	1997 £m	Return on capital employed 1998 %	Return on capital employed 1997 %
Deluxe	296	208	–	504	485	17.5	18.1
Hard Rock	170	551	–	721	676	6.7	7.0
Holidays							
UK	696	38	–	734	651	7.6	10.9
US	56	26	(26)	56	234	1.8	0.4
	752	64	(26)	790	885	7.2	8.1
Leisure							
Gaming	449	160	–	609	651	8.7	8.8
Entertainment	332	62	(56)	338	432	10.9	11.6
	781	222	(56)	947	1,083	9.5	9.9
Continuing operations	1,999	1,045	(82)	2,962	3,129	9.5	9.9

*This relates to Resorts USA and Tom Cobleigh where the goodwill previously written off to reserves is deemed to have lost value.

Borrowings

At 31 December 1998, net debt was £1,057m compared with £1,012m at 31 December 1997. The increase was the result of the continuing investment expenditure exceeding cash generated from operations and disposals. 63% of net debt was denominated in US dollars and most of the balance in sterling.

Net debt as a percentage of shareholders' funds was 80% compared with 67% at 31 December 1997.

As part of the US$1.5bn bank facilities arranged for the expansion of Universal Studios Escape, Rank has guaranteed US$600m or £363m of facilities until completion of the expansion which is expected in May 1999. Of the guaranteed facilities, US$494m or £297m had been drawn down at 31 December 1998. The drawn amount is shown as a contingent liability in the accounts. Rank's share of drawn, unguaranteed debt is US$169m or £101m.

At the end of the year, the Group had committed facilities available amounting to £1,781m. Only £59m of these facilities mature by December 1999 and the balance is adequate to meet Rank's immediate requirements. The Group actively managed its debt in the year with a view to increasing the length of maturity by accessing alternative markets. In the UK £125m has been raised at a cost of 7.25% and a maturity of 10 years. In the US, US$200m has been raised at a 10 year weighted average cost of 6.8% for maturities of 10 and 20 years.

The Company's Articles of Association provide that borrowings shall not exceed one and a half times the adjusted share capital and consolidated reserves of Rank. As at 31 December 1998, this limit was £1,974m compared with relevant borrowings of £1,365m.

Treasury policy

Rank seeks to achieve certainty of value on its foreign currency purchases and sales by buying or selling forward a portion of its estimated net currency requirements up to a year ahead, or longer where an external currency exposure exists, or is forecast to exist. At 31 December 1998, at least 70% of anticipated core currency transaction exposures for the following 12 months had been hedged. Balance sheet currency exposure in respect of investments in overseas subsidiaries is minimised by hedging the underlying asset position with currency borrowings.

Rank seeks to protect itself against material adverse movements in interest rates by undertaking controlled management of the interest rate structure on Group investments and borrowings. This exposure is managed by fixing interest rates on a portion of the Group's borrowings dependent on the level of gearing. At the year end 73% of net borrowings were at fixed rates of interest for a period of more than one year.

The Directors review and agree the broad policies and guidelines for all significant areas of treasury activity, including key ratios, funding and risk management. Implementation of these policies is carried out by the Group treasury department, under close management direction. The treasury function is not operated as a profit centre.

Rank uses off-balance sheet financial instruments, including foreign exchange forward contracts and interest rate swaps, in its management of exchange rate and interest rate exposures. Off-balance sheet financial instruments are only used to hedge underlying commercial exposures. Therefore while these instruments are subject to the risk of loss from changes in exchange rates and interest rates, such losses would be offset by gains in the related exposures. Rank does not speculate in derivative financial instruments. Realised and unrealised gains and losses on foreign exchange forward contracts that hedge firm third party commitments are recognised in income in the same period as the underlying transaction. Net interest paid or received on interest rate swap contracts is included in net interest expense.

Further information on borrowings and financial instruments is contained in notes 18 and 19 to the accounts.

Risk management

Rank's financial exposure to risk is reduced by its geographical spread, the wide range of products and services offered, its treasury policies and insurance. As a leisure and entertainment group, Rank is primarily affected by levels of consumer spending and trends in leisure activities.

Rank carries catastrophe insurance, but self-insures at lower levels of exposure. Overall, considerable emphasis is placed on the need for strict internal financial controls in all Rank's operations and these are regularly reviewed by its internal auditors.

Year 2000

The Year 2000 issue affects installed computer systems, software applications and other business systems that have date sensitive programs that may not properly reflect or recognise the Year 2000. This could result in miscalculation or system failures.

In 1997, Rank surveyed those areas where its systems and applications might be affected by the Year 2000 problem. As a result of the significant capital investment made, starting in 1996, on improving and replacing systems to support the way Rank now operates within its divisions, few problem areas were identified. As the new systems replace fully depreciated older systems or represent a considerable enhancement to them, expenditure on them has been capitalised in fixed assets in the normal way. Revenue expenditure on addressing Year 2000 problems outside major system replacements has not been, and is not expected to be, material.

Good progress has been made in overcoming the remaining identified Year 2000 issues. The conversion of the majority of Deluxe's financial and business systems to the SAP platform will resolve the main issues in the division and this is on schedule for completion by June. Hard Rock core systems are new and Year 2000 compliant. The main outstanding issue for Holidays is the reservation systems where full compliance is planned to be achieved by the third quarter of 1999. At Leisure, all divisional systems are new and Year 2000 compliant, as are most site level systems.

With the exception of the Holidays reservation systems, materially all systems should be Year 2000 compliant by the end of the second quarter of 1999. Progress on Year 2000 projects is regularly reviewed by senior management and the Audit Committee.

There is a risk to the Group, as with all companies, that its suppliers and customers may experience Year 2000 failures. Contingency plans are being drawn up to address these eventualities and will be finalised by the end of the third quarter of 1999.

Shareholders' funds

Shareholders' funds were £1,316m at the end of 1998 compared with £1,518m at the end of 1997. The reduction in 1997 is due to the exceptional and non-operating charges made in the year.

Net assets per Ordinary share at 31 December 1998 were 142p, compared with 172p at the end of 1997.

Year ended 31 December	1998 £m	1997 £m	1996 £m	1995 Proforma £m	1994 Proforma £m
Turnover					
Current operations	2,057	2,009	1,838	1,640	1,532
Former operations	–	3	246	279	303
	2,057	2,012	2,084	1,919	1,835
Operating profit before exceptional items					
Current operations	280	310	278	248	240
Former operations	–	–	12	8	(1)
	280	310	290	256	239
Joint ventures and associates (excluding Rank Xerox)	23	20	14	9	10
Interest excluding exceptional items	(48)	(47)	(56)	(44)	(74)
Profit before Rank Xerox, tax and exceptionals	255	283	248	221	175
Rank Xerox before exceptional items	–	20	49	187	210
Profit before tax and exceptional items	255	303	297	408	385
Exceptional items	(306)	(43)	(232)	236	(59)
(Loss) profit before tax	(51)	260	65	644	326
Earnings per Ordinary share before exceptional items accounting for Rank Xerox on a dividend basis					
– Rank businesses	23.0p	24.0p	19.4p	18.1p	13.0p
– Rank Xerox	–	2.5p	4.7p	6.0p	7.1p
– Total	23.0p	26.5p	24.1p	24.1p	20.1p
Dividend per Ordinary share (net)	18.50p	18.00p	17.00p	15.75p	13.25p

Five year record

The table above shows the key trends in Rank's results, excluding Rank Xerox, over the period 1 January 1994 to 31 December 1998. Turnover in current operations increased at a compound annual growth rate of 8% and operating profit before exceptional items increased by 4%. Profit before tax in the Rank businesses, excluding exceptional items, was £255m in 1998 compared with £175m in 1994, representing a compound annual growth rate of 10%.

Earnings per share before exceptional items in the Rank businesses in 1998 were 23.0p compared with 13.0p in 1994, a compound annual increase of over 15%.

The net dividend per Ordinary share of 18.5p in 1998 compared with 13.25p in 1994, a compound average annual growth rate of 9%.

Directors' Responsibilities in relation to Accounts

The Directors are required by the Companies Act 1985 to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss for the financial year.

In preparing the accounts the Directors are required to select appropriate accounting policies and apply them consistently, to make reasonable and prudent judgments and estimates, and to state that all accounting standards which they consider to be applicable have been followed, save as disclosed in the notes to the accounts. The Directors are also required to prepare the accounts on the going concern basis unless it is inappropriate to do so.

The Directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy at any time the financial position of the Company and which enable them to ensure that the accounts comply with the Companies Act 1985.

The Directors also have responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Report of the Auditors to the Members of The Rank Group Plc

We have audited the accounts on pages 18 to 43 which have been prepared under the historical cost convention and the accounting policies set out on pages 22 to 23, and the information set out in the tables on pages 3 to 6 within the Remuneration Report.

Respective responsibilities of Directors and Auditors

The Directors are responsible for preparing the accounts, as described above. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange and our profession's ethical guidance.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the Directors' Report is not consistent with the accounts, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding Directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts.

We review whether the statement on pages 7 and 8 reflects the Company's compliance with those provisions of the Combined Code specified for our review by the London Stock Exchange, and we report if it does not. We are not required to form an opinion on the effectiveness of the Group's corporate governance procedures or its internal controls.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company and the Group at 31 December 1998 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers

PRICEWATERHOUSECOOPERS

Chartered Accountants and Registered Auditors
London

17 February 1999

Group Profit and Loss Account for the year ended 31 December 1998

		1998			1997		
	Note	Before exceptional items £m	Exceptional items £m	Total £m	Before exceptional items £m	Exceptional items £m	Total £m
Turnover							
Continuing operations		2,025	–	2,025	2,009	–	2,009
Acquisitions		32	–	32	–	–	–
	1,2	2,057	–	2,057	2,009	–	2,009
Discontinued operations	1,2	–	–	–	3	–	3
	1,2	2,057	–	2,057	2,012	–	2,012
Operating profit							
Continuing operations		275	(98)	177	310	–	310
Acquisitions		5	–	5	–	–	–
	1,2	280	(98)	182	310	–	310
Discontinued operations	1,2	–	–	–	–	–	–
Group operating profit	1,2	280	(98)	182	310	–	310
Share of operating profit in joint ventures and associates							
Joint ventures	12	4	–	4	–	–	–
Associated undertakings	13	27	–	27	25	–	25
		311	(98)	213	335	–	335
Non-operating items							
Loss on disposal of continuing operations' properties	3	–	(55)	(55)	–	–	–
Loss on disposal of continuing operations	3	–	(153)	(153)	–	–	–
Loss on disposal of investment	3	–	–	–	–	(74)	(74)
Profit on disposal of discontinued operations	3	–	–	–	–	31	31
Income from fixed asset investment							
Rank Xerox dividends receivable		–	–	–	20	–	20
Profit (loss) before interest		311	(306)	5	355	(43)	312
Net interest payable and other similar charges							
Group	4	(48)	–	(48)	(47)	–	(47)
Joint ventures	12	(3)	–	(3)	–	–	–
Associated undertakings	13	(5)	–	(5)	(5)	–	(5)
		(56)	–	(56)	(52)	–	(52)
Profit (loss) on ordinary activities before tax		255	(306)	(51)	303	(43)	260
Tax on profit (loss) on ordinary activities	5	(55)	–	(55)	(64)	–	(64)
Profit (loss) on ordinary activities after tax		200	(306)	(106)	239	(43)	196
Minority interests (including non-equity interests)	24	(3)	–	(3)	(3)	–	(3)
Profit (loss) for the financial year		197	(306)	(109)	236	(43)	193
Dividends and other appropriations							
Preference	7	(21)	–	(21)	(20)	–	(20)
Ordinary	7	(142)	–	(142)	(137)	–	(137)
Transfer to (from) reserves	23	34	(306)	(272)	79	(43)	36
Earnings (loss) per Ordinary share	8	23.0p	(40.0)p	(17.0)p	26.5p	(5.3)p	21.2p
Diluted earnings (loss) per Ordinary share	8	23.8p	(37.0)p	(13.2)p	26.9p	(4.8)p	22.1p

There is no difference between the result as disclosed in the profit and loss account and that on an unmodified historical cost basis.

Balance Sheets at 31 December 1998

	Note	Group 1998 £m	Group 1997 £m	Company 1998 £m	Company 1997 £m
Fixed assets					
Intangible assets	9	3	–	–	–
Tangible assets	10	1,872	1,863	–	–
Investments					
Subsidiary undertakings	11	–	–	2,379	2,379
Joint ventures					
Share of gross assets		153	–	–	–
Share of gross liabilities		(139)	–	–	–
	12	14	–	–	–
Associated undertakings	13	356	241	–	–
Other	14	15	11	1	2
		2,260	2,115	2,380	2,381
Current assets					
Stocks	15	69	96	–	–
Debtors (amounts falling due within one year)	16	555	543	310	237
Debtors (amounts falling due after more than one year)	16	116	421	–	234
Investments	17	16	16	–	–
Cash and deposits	17	79	90	–	–
		835	1,166	310	471
Creditors (amounts falling due within one year)					
Loan capital and borrowings	18	(88)	(75)	–	–
Other	20	(554)	(532)	(151)	(254)
		(642)	(607)	(151)	(254)
Net current assets		193	559	159	217
Total assets less current liabilities		2,453	2,674	2,539	2,598
Creditors (amounts falling due after more than one year)					
Loan capital and borrowings	18	(1,064)	(1,043)	–	–
Other	20	(44)	(43)	–	–
		(1,108)	(1,086)	–	–
Provisions for liabilities and charges	21	(17)	(43)	–	–
		1,328	1,545	2,539	2,598
Capital and reserves					
Called up share capital	23	123	121	123	121
Share premium account	23	8	6	8	6
Capital redemption reserve	23	7	8	7	8
Other reserves	23	1,178	1,383	2,401	2,463
Shareholders' funds		1,316	1,518	2,539	2,598
Equity interests		1,098	1,302	2,321	2,382
Non-equity interests		218	216	218	216
Minority interests (including non-equity interests)	24	12	27	–	–
		1,328	1,545	2,539	2,598

These accounts were approved by the Board on 17 February 1999 and signed on its behalf by:
Sir Denys Henderson, Chairman
Nigel Turnbull, Finance Director

Group Cash Flow Statement for the year ended 31 December 1998

	Note	1998 £m	1997 £m
Net cash inflow from operating activities	25	360	443
Distributions from joint ventures and associated undertakings		24	33
Returns on investment and servicing of finance			
Interest received		7	20
Interest paid		(89)	(85)
Distributions from investments		–	19
Dividends paid to preference shareholders		(18)	(18)
Dividends paid to minority shareholders in subsidiary undertakings		(2)	(2)
		(102)	(66)
Taxation paid (net)		(55)	(86)
Capital expenditure			
Purchase of tangible fixed assets		(440)	(411)
Purchase of investments		(4)	(9)
Investment in joint ventures and associated undertakings		(127)	(50)
Purchase of own shares		–	(1)
Sale of fixed assets and assets held for disposal		178	18
		(393)	(453)
Acquisitions and disposals			
Purchase of subsidiaries	26	(46)	(43)
Sale of businesses and investments	27	237	530
		191	487
Ordinary dividends paid		(50)	(141)
Cash (outflow) inflow before use of liquid resources and financing		(25)	217
Management of liquid resources	28	–	3
Financing			
Issue of Ordinary share capital		3	5
Repurchase of Ordinary share capital		–	(291)
Repurchase of minority preference shares		(25)	–
Contribution from minorities		9	–
Debt due within one year:			
repayment of short-term loans and borrowings		(42)	(100)
Debt due after more than one year:			
net (repayment) drawdown on sterling syndicated facilities		(70)	45
net repayment of US dollar syndicated facilities		(91)	–
new US dollar bonds		123	113
new 7 1/4% euro sterling bond		126	–
net movements on other long-term facilities		(14)	43
Capital element of finance lease rental payments		(8)	(5)
Increase in debt and lease financing	28, 29	24	96
(Decrease) increase in cash	28, 29	(14)	30

Group Recognised Gains and Losses for the year ended 31 December 1998

	1998 £m	1997 £m
(Loss) profit for the financial year	(109)	193
Currency translation differences on foreign currency net investments	4	2
Total recognised gains and losses for the year	(105)	195

Movements in Shareholders' Funds for the year ended 31 December 1998

	1998 £m	1997 £m
(Loss) profit for the financial year	(109)	193
Dividends payable excluding provision for redemption premium	(161)	(155)
Retained (loss) profit for the year	(270)	38
Other recognised gains and losses (net)	4	2
Ordinary shares issued in lieu of dividends	56	–
Other issue of Ordinary share capital	3	5
Repurchase of Ordinary share capital	–	(291)
Elimination of goodwill arising in the year	–	(32)
Goodwill realised upon disposal	5	–
Net movement in shareholders' funds	(202)	(278)
Shareholders' funds at 1 January	1,518	1,796
Shareholders' funds at 31 December	1,316	1,518

Accounting Policies

1 Basis of preparation
The accounts are prepared under the historical cost convention, and comply with applicable accounting standards on a basis consistent with the previous year except for the changes detailed below. The Group's profit and loss account and balance sheet include the accounts of the Company and its subsidiary undertakings, and the Group's share of profits or losses and reserves of its associated undertakings. The profits or losses of subsidiary undertakings acquired or sold during the period are included as from or up to the dates on which control passed.

Changes in accounting policy
The Group has adopted Financial Reporting Standards 9 ('Associates and joint ventures'), 10 ('Goodwill and intangible assets'), 11 ('Impairment of fixed assets and goodwill'), 13 ('Derivatives and other financial instruments: Disclosures') and 14 ('Earnings per share').

The principal change arising from the adoption of FRS 9 is that the Group's share of the profit before tax from associates and joint ventures is now analysed between share of operating profit and share of interest on the face of the profit and loss account. The Group accounts for its interests in the partnerships which comprise Universal Studios Escape (referred to as Universal Studios Resort in the 1997 Accounts) as associates. This is because, while the Group exercises significant influence in the management of the partnerships, it does not share control in the way envisaged for a joint venture. The Group's investment in BL Rank Properties Ltd is accounted for as a joint venture.

With respect to FRS 10, the Group has decided, as allowed by the standard, not to restore to the balance sheet any of the goodwill previously eliminated against reserves. Goodwill arising on acquisitions subsequent to 31 December 1997 has been capitalised and is being amortised over its useful economic life.

FRS 11 requires fixed assets to be written down where their recoverable amount falls below their carrying value. The standard defines the recoverable amount of an asset as the higher of value in use to the business and net realisable value. The standard does not allow consideration of whether the deficit is temporary or permanent. Previously, the Group's policy was to book permanent diminutions only, as required by the Companies Act. In defining its income generating units as required by the standard, the Group has taken into account its separate lines of business and the different economic areas in which they operate. A pre-tax discount rate of 16% has been applied in value in use calculations.

FRS 13 introduces considerable new disclosures in respect of financial instruments but does not affect their treatment in the primary statements.

FRS 14 does not affect the calculation of the Group's earnings per share figures as shown on the face of the profit and loss account but introduces a new method of calculating diluted earnings per share.

2 Foreign currency
Revenues, costs and cash flows of overseas undertakings are included in the Group profit and loss account at average rates of exchange. Assets and liabilities denominated in foreign currencies are translated into sterling at rates of exchange ruling at the balance sheet date except where a forward exchange contract has been arranged when the contracted rate is used. Exchange differences on the retranslation of opening net assets and results for the period of foreign subsidiary undertakings are dealt with through reserves net of differences on related foreign currency borrowings. Other gains and losses arising from foreign currency transactions, including trading, are included in the consolidated profit and loss account.

The principal exchange rates affecting the Group were:	1998		1997	
	Year end	Average	Year end	Average
United States dollar	**1.66**	**1.66**	1.65	1.64
Canadian dollar	**2.56**	**2.47**	2.37	2.28
German mark	**2.77**	**2.91**	2.96	2.83
Spanish peseta	**236**	**248**	251	240

3 Income recognition
Turnover consists of sales of goods and services and is generally recognised as goods are shipped or services are rendered. Turnover for casinos includes the gaming win before deduction of gaming duty.

4 Deferred expenditure
Deferred expenditure comprises (a) those costs incurred prior to the commencement of trading which are regarded as a prepayment against future profits to be earned, (b) other amounts deferred including rights acquired and (c) advance payments on supply contracts. The expenditure is included in prepayments and is written off over periods of three to eight years, the period over which the related benefits are expected to arise.

5 Goodwill
Goodwill arising on acquisitions made before 31 December 1997 has been written off directly to reserves. Following the introduction of FRS 10, goodwill arising on acquisitions subsequent to 31 December 1997 has been capitalised and is being amortised over its useful economic life.

6 Stocks
Stocks include work in progress and are valued at the lower of cost (including an appropriate proportion of overhead) and net realisable value.

7 Tangible fixed assets
No depreciation is provided on freehold land or on certain properties, which are freehold or held on lease for a term exceeding 20 years unexpired, where the Directors are of the opinion that the properties concerned are currently sufficiently well maintained to ensure that the residual values of such properties are such that the depreciation would be insignificant.

Other freehold properties are depreciated on a straight line basis over 100 years or useful life, if less. Other leased properties are depreciated over the lesser of 100 years, their useful life or the term of the lease. Expenditure on major refurbishment of properties is amortised over periods of between three and 15 years. Other fixed assets are depreciated mainly at rates between 5% and 33% per annum on a straight line basis.

Interest costs that are directly attributable to the construction of a tangible fixed asset are capitalised as part of the cost of the asset concerned.

8 Leased assets
Assets acquired under finance leases are included in tangible fixed assets. Depreciation is provided at rates designed to write off the cost in equal annual amounts over the shorter of the estimated useful lives of the assets (which are the same as those for assets purchased outright) and the period of the leases. The capital element of future rentals is treated as a liability and the interest element is charged to the profit and loss account over the period of the leases in proportion to the balances outstanding. Operating lease payments are charged to the profit and loss account as incurred. No provision is made for future costs on vacant leasehold properties. Such costs are expensed as incurred.

9 Pensions
The pension costs relating to the UK defined benefit scheme are assessed in accordance with the advice of a qualified actuary using the projected unit method. Actuarial surpluses and deficiencies are amortised on a straight line basis over the expected average remaining service lives of the employees. The pension costs relating to the UK defined contribution scheme represent the contributions payable by the Group. Overseas schemes are accounted for in accordance with local conditions and practice such that the costs are charged against profits on a systematic basis over the service lives of the employees.

10 Taxation
Current taxation is applied to taxable profits at the rates ruling in the relevant country. Deferred taxation is provided in respect of timing differences to the extent that it is probable that a liability will arise in the foreseeable future. Advance Corporation Tax on dividends paid is set off against United Kingdom current liabilities and deferred tax provisions to the extent that it is considered recoverable. Irrecoverable Advance Corporation Tax is written off as part of the tax charge for the period.

11 Financial instruments
Derivative instruments that may be utilised by the Group are interest rate swaps and caps, cross currency swaps, forward rate agreements, interest rate swap options, forward exchange contracts and currency options.

Termination payments made or received in respect of derivatives are spread over the life of the underlying exposure in cases where the underlying exposure continues to exist. Where the underlying exposure ceases to exist, any termination payments are taken to the profit and loss account.

Interest differentials on derivative instruments used to hedge underlying borrowings are recognised by adjusting net interest payable. Premiums or discounts on derivative instruments are amortised over the shorter of the life of the instrument or the underlying exposure.

Currency swap agreements and forward exchange contracts are used to hedge future transaction flows. The resulting gains and losses are recognised as they arise and offset against foreign exchange gains or losses on the related underlying exposure.

1 Segmental information	Turnover 1998 £m	Turnover 1997 £m	Profit before exceptional items 1998 £m	Profit before exceptional items 1997 £m	Profit (loss) after exceptional items 1998 £m	Profit (loss) after exceptional items 1997 £m	Capital employed (c) 1998 £m	Capital employed (c) 1997 £m
Analysis by Division (a)								
Deluxe	651	626	88	88	88	88	504	485
Hard Rock	239	235	48	47	48	47	721	676
Holidays								
UK Holidays	437	439	56	71	(23)	71	734	651
US Holidays	55	70	1	1	1	1	82	234
	492	509	57	72	(22)	72	816	885
Leisure								
Gaming	402	383	53	57	53	57	609	651
Entertainment	273	256	37	50	18	50	394	432
	675	639	90	107	71	107	1,003	1,083
Other	–	–	(3)	(4)	(3)	(4)	–	–
Continuing operations	2,057	2,009	280	310	182	310	3,044	3,129
Discontinued operations (b)	–	3	–	–	–	–	–	(1)
	2,057	2,012	280	310	182	310	3,044	3,128
Share of investments (d)								
Universal Studios Florida			22	20	22	20	129	133
Universal Studios Escape developments			–	–	–	–	241	123
Rank Xerox			–	20	–	20	–	–
Other			1	–	1	–	30	11
			23	40	23	40	400	267
Total capital employed							3,444	3,395
Non-operating items (net)					(208)	(43)		
Group interest payable and other similar charges			(48)	(47)	(48)	(47)		
Profit (loss) on ordinary activities before tax			255	303	(51)	260		

(a) Inter-segmental turnover is not material.
(b) In 1997 discontinued operations comprised Rank Film Distributors.
(c) Capital employed comprises net operating assets plus purchased goodwill.
(d) Share of investments' profit is defined as share of profit before tax. Share of investments' capital employed is the carrying value in the Group's balance sheet plus purchased goodwill.

1 Segmental information continued

	Depreciation 1998 £m	Depreciation 1997 £m	Investment expenditure 1998 £m	Investment expenditure 1997 £m	Net cash flow before financing 1998 £m	Net cash flow before financing 1997 £m	Net assets 1998 £m	Net assets 1997 £m
Analysis by Division								
Deluxe	30	32	56	58	65	102	296	274
Hard Rock	9	7	50	48	(10)	6	170	116
Holidays								
UK Holidays	29	24	196	131	(109)	(27)	696	616
US Holidays	3	4	2	5	12	2	56	208
	32	28	198	136	(97)	(25)	752	824
Leisure								
Gaming	45	41	90	101	65	25	449	491
Entertainment	19	15	100	117	44	(49)	332	369
	64	56	190	218	109	(24)	781	860
Other	1	1	2	–	(7)	(63)	–	–
Continuing operations	136	124	496	460	60	(4)	1,999	2,074
Discontinued operations	–	–	–	–	–	70	–	(1)
	136	124	496	460	60	66	1,999	2,073
Investments								
Universal Studios Florida			–	–	24	33	114	118
Universal Studios Escape developments			104	50	(104)	(50)	241	123
Rank Xerox			–	–	219	483	–	–
Other			27	9	(27)	(9)	30	11
			131	59	112	457	385	252
			627	519	172	523	2,384	2,325
Interest paid (net)					(82)	(65)		
Tax and dividends					(125)	(247)	(177)	(142)
Other non-operating assets (net)							175	374
Acquired debt and other non-cash items			(10)	(6)	10	6		
Goodwill							3	–
Net debt							(1,057)	(1,012)
			617	513	(25)	217	1,328	1,545

	Turnover by origin 1998 £m	Turnover by origin 1997 £m	Operating profit by origin: Before exceptional items 1998 £m	Before exceptional items 1997 £m	After exceptional items 1998 £m	After exceptional items 1997 £m	Net assets 1998 £m	Net assets 1997 £m
Geographical analysis								
United Kingdom	1,174	1,165	150	183	52	183	1,512	1,512
North America	749	742	106	106	106	106	387	500
Rest of the World	134	102	24	21	24	21	100	62
Continuing operations	2,057	2,009	280	310	182	310	1,999	2,074

Turnover by destination is not materially different from turnover by origin.

2 Turnover and operating profit

	1998 Continuing operations £m	1998 Discontinued operations £m	1998 Total £m	1997 Continuing operations £m	1997 Discontinued operations £m	1997 Total £m
Turnover	2,057	–	2,057	2,009	3	2,012
Cost of sales	(1,591)	–	(1,591)	(1,411)	(3)	(1,414)
Gross profit	466	–	466	598	–	598
Distribution costs	(99)	–	(99)	(98)	–	(98)
Administrative expenses	(193)	–	(193)	(197)	–	(197)
Other operating income	8	–	8	7	–	7
Operating profit	182	–	182	310	–	310
Exceptional items included above are:						
In cost of sales	(98)	–	(98)	–	–	–

The total figures for continuing operations in 1998 include the following amounts relating to acquisitions: cost of sales £23m and administrative expenses £4m.

	1998 £m	1997 £m
Operating profit is stated after charging (crediting) the following items:		
In normal trading		
Depreciation of tangible fixed assets	136	124
Operating lease payments – land and buildings	56	40
Operating lease payments – plant and machinery	3	2
In exceptional items		
Impairment of fixed assets	92	–
Impairment of other assets	6	–

The total audit fee (including expenses) for the year was £1.2m (1997 £1.1m). The fee in respect of the Company was £50,000 (1997 £50,000). The total audit fees for 1998 and 1997 include amounts paid to KPMG who audit certain subsidiaries. Fees for non-audit work paid by the Company and its UK subsidiaries to PricewaterhouseCoopers were £3.3m (1997 Price Waterhouse £2.5m) and for non-audit work for overseas subsidiaries were £2.7m (1997 Price Waterhouse £0.1m). Fees for non audit work include £4.6m in respect of consulting advice on system implementations. All of this work was subject to competitive tender.

3 Non-operating items

	1998 £m	1997 £m
Profit on disposal of continuing operations' properties	9	–
Loss (including provision for loss) on disposal of continuing operations' properties	(64)	–
	(55)	–
Loss (including provision for loss) on disposal of continuing operations (after deducting goodwill of £5m (1997 £Nil))	(153)	–
Loss on disposal of investment in Rank Xerox	–	(74)
Profit (loss) on disposal of discontinued operations	–	31
Non-operating items before tax	(208)	(43)

Within non-operating items is a provision for loss on disposal of £213m of which £141m relates to the Resorts USA holiday business. The balance is mainly attributable to those leisure properties, principally nightclubs and bingo clubs, from which the Group has chosen to withdraw.
Of the £213m, £97m relates to provisions against fixed assets, £81m to debtors and £35m to stock. This provision had no cash effect in the year.
The tax charge attributable to non-operating items is £Nil (1997 £Nil).

4 Net interest payable and other similar charges

	1998 £m	1997 £m
Interest payable on bank loans and overdrafts	25	37
Interest payable on other loans	65	44
Finance charges on finance leases	1	1
Interest capitalised in period	(17)	(12)
Amortisation of interest capitalised (note 13)	1	1
Interest payable and other similar charges	75	71
Interest receivable from deposits and current asset investments	(4)	(4)
Gain on cancellation of interest rate swaps	–	(5)
Release of discount on deferred disposal proceeds	(23)	(15)
Net interest payable and other similar charges	48	47

5 Taxation on profit on ordinary activities	1998 Before exceptional items £m	1998 Exceptional items £m	1998 Total £m	1997 Before exceptional items £m	1997 Exceptional items £m	1997 Total £m
United Kingdom corporation tax						
Current	59	–	59	44	–	44
Deferred	–	–	–	5	–	5
Advance Corporation Tax recovered	(15)	–	(15)	–	–	–
	44	–	44	49	–	49
Overseas tax						
Current	8	–	8	12	–	12
	8	–	8	12	–	12
Taxation on share of profits of:						
Joint ventures	–	–	–	–	–	–
Associated undertakings	3	–	3	3	–	3
	55	–	55	64	–	64

United Kingdom corporation tax on the profits of the Company and its UK subsidiaries for the year has been provided at 31% (1997 31.5%).

6 Profit attributable to the parent company

The profit for the financial year in the accounts of The Rank Group Plc was £43m (1997 £2,543m). As allowed by S. 230 Companies Act 1985, no profit and loss account is presented in respect of The Rank Group Plc.

7 Dividends	1998 £m	1997 £m
Convertible Redeemable Preference shares		
Dividends payable for the period	19	18
Provision for redemption premium	2	2
	21	20
Ordinary shares		
Interim declared of 5.75p per share (1997 5.25p)	43	41
Final proposed of 12.75p per share (1997 12.75p)	99	96
	142	137

8 Earnings per Ordinary share

Basic earnings per share is calculated by dividing the earnings attributable to Ordinary shareholders by the weighted average number of Ordinary shares in issue during the year, excluding those held in the employee share trust which are treated as cancelled.

For diluted earnings per share, the weighted average number of Ordinary shares in issue is adjusted to assume conversion of all dilutive potential Ordinary shares. The Group has two categories of dilutive potential Ordinary shares: those share options granted to employees where the exercise price is less than the average price of the Company's Ordinary shares during the year and the Company's Convertible Redeemable Preference shares. Reconciliations of the earnings and weighted average number of shares used in the calculations are set out below.

	1998 Before exceptional items	1998 Exceptional items	1998 Total	1997 Before exceptional items	1997 Exceptional items	1997 Total
Basic earnings (£m)	176	(306)	(130)	216	(43)	173
Effect of dilutions (£m)	21	–	21	20	–	20
Diluted earnings (£m)	197	(306)	(109)	236	(43)	193
Weighted average number of Ordinary shares (m)			765.0			813.9
Effect of dilutions (m)			62.0			62.7
Adjusted weighted average number of Ordinary shares (m)			827.0			876.6
Earnings per share	23.0p	(40.0p)	(17.0p)	26.5p	(5.3p)	21.2p
Diluted earnings per share	23.8p	(37.0p)	(13.2p)	26.9p	(4.8p)	22.1p

Earnings per share before exceptional items has been calculated to show the impact of exceptional items as these can have a distorting effect on earnings and therefore warrant separate consideration.

9 Intangible fixed assets

Intangible fixed assets consist of £3m (1997 £Nil) goodwill arising in the year on the acquisition of Parkdean Holidays. It is being amortised over 20 years and the charge for the year was £0.1m.

10 Tangible fixed assets	Land and buildings £m	Fixtures, fittings, plant and machinery £m	Payments on account and assets in course of construction £m	Total £m
Group				
Cost at 31 December 1997	1,480	1,122	54	2,656
Currency translation adjustment	–	2	–	2
New businesses acquired	23	23	–	46
Additions	168	188	105	461
Disposals	(170)	(81)	–	(251)
Transfers including to current assets	33	34	(67)	–
Cost at 31 December 1998	1,534	1,288	92	2,914
Depreciation at 31 December 1997	213	580	–	793
Currency translation adjustment	–	1	–	1
Disposals	(16)	(61)	–	(77)
Depreciation for the year	12	124	–	136
Provision for loss on disposal	66	31	–	97
Provision for impairment	58	34	–	92
Transfers including to current assets	(8)	8	–	–
Depreciation at 31 December 1998	325	717	–	1,042
Net book amount at 31 December 1998	1,209	571	92	1,872
Net book amount at 31 December 1997	1,267	542	54	1,863

(a) Land and buildings with a net book amount of £864m (1997 £910m) are not depreciated. The net book amount of tangible assets for the Group includes £18m (1997 £17m) interest capitalised.

(b) The book amounts for fixtures, fittings, plant and machinery include the following amounts in respect of assets held under finance leases: cost £33m (1997 £30m), depreciation £6m (1997 £5m), net book amount £27m (1997 £25m). The depreciation charge in respect of these assets was £4m (1997 £4m).

	1998 £m	1997 £m
The net book amount of land and buildings comprises		
Freeholds	800	840
Long leases (over 50 years unexpired)	333	354
Short leases	76	73
	1,209	1,267

11 Investments in subsidiary undertakings	Company Shares at cost £m	Company Provisions £m	Company Net book amount £m
Balances at 31 December 1998 and 1997	2,779	(400)	2,379

Details of principal subsidiary undertakings are given on page 41.

12 Interests in joint ventures (unlisted)	Participating interests at cost £m
Balances at 31 December 1997	–
Additions	23
Provision for unrealised profit on assets sold to joint venture	(9)
Net book amount at 31 December 1998	14

The joint venture is BL Rank Properties Limited ("BLRP") and its subsidiaries. The Group owns 100% of the 'A' shares which constitute 50% of the voting share capital with the balance held by The British Land Company PLC. The principal activity of the BLRP group is property investment.

	BLRP 1998 £m	BLRP 1997 £m
Share of retained profit for the period		
Share of profits less losses before taxation	1	–
Dividends and distributions receivable by the Group	(1)	–
Amounts retained attributable to the Group	–	–

13 Interests in associated undertakings (unlisted)	Participating interests at cost £m	Group share of post acquisition reserves £m	Total £m
Balances at 31 December 1997	243	(2)	241
Currency translation adjustment	(1)	–	(1)
Additions	119	–	119
Capital distributions	(2)	–	(2)
Amortisation of interest capitalised	(1)	–	(1)
Net book amount at 31 December 1998	358	(2)	356

Included in interests in associates is £355m (1997 £241m) in respect of the Group's 50% interests in the Universal City Florida, Universal City Development and Universal Rank Hotel partnerships. These amounts include £39m (1997 £26m) net interest capitalised.

	Universal Studios Florida 1998 £m	Universal Studios Florida 1997 £m
Share of retained profit for the period		
Share of profits less losses before taxation	22	20
Dividends and distributions receivable by the Group	(22)	(20)
Amounts retained attributable to the Group	–	–

Details of the Group's investment in Universal Studios Escape are set out on pages 42 and 43.

14 Other investments	Group 1998 £m	Group 1997 £m	Company 1998 £m	Company 1997 £m
Balances at 31 December 1997	11	931	2	1
Exchange adjustment	1	–	–	–
Additions	4	10	–	1
Disposal of interest in Rank Xerox	–	(930)	–	–
Provision for impairment	(1)	–	(1)	–
Balances at 31 December 1998	15	11	1	2

Other investments comprises £14m (1997 £9m) in relation to the Group's investment in Universal Studios Japan and £1m (1997 £2m) in respect of 390,000 (1997 390,000) Ordinary shares in The Rank Group Plc held at cost by The Rank Group Plc Employee Benefit Trust. Dividends on the shares held have been waived by the trustees with the exception of one penny in total. The Trust may make such investments in the shares of the Company or otherwise as the trustee or trustees may determine to provide benefits to any eligible employee. The benefits may be provided in the form of shares, cash or otherwise although any share related benefit will be provided in accordance with an appropriate employee share scheme or bonus scheme of the Company. None of the shares have been conditionally gifted to them, but 65,611 shares are held subject to options granted to Directors and executives.

15 Stocks	Group 1998 £m	Group 1997 £m
Raw materials and consumables	21	21
Work in progress	9	4
Finished goods and goods for resale	37	31
Completed properties for resale	1	35
Property developments in progress	1	5
	69	96

16 Debtors	Group 1998 £m	Group 1997 £m	Company 1998 £m	Company 1997 £m
Amounts falling due within one year				
Trade debtors	148	134	–	–
Amounts owed by subsidiary undertakings	–	–	87	19
Disposal proceeds	221	213	221	213
Other debtors	62	50	–	–
Assets held for disposal	4	6	–	–
Prepayments and accrued income	111	113	–	–
Instalment sale debtors	4	10	–	–
Notes receivable	5	12	–	–
Advance Corporation Tax recoverable	–	5	2	5
	555	543	310	237
Amounts falling due after more than one year				
Disposal proceeds	–	210	–	210
Other debtors	12	13	–	–
Prepayments and accrued income	52	43	–	–
Instalment sale debtors	18	54	–	–
Notes receivable	34	77	–	–
Advance Corporation Tax recoverable	–	24	–	24
	116	421	–	234

17 Cash, deposits and current asset investments

	Group 1998 £m	Group 1997 £m	Company 1998 £m	Company 1997 £m
Cash, current accounts and overnight deposits	64	70	–	–
Term deposits	15	20	–	–
	79	90	–	–
Current asset investments	16	16	–	–
Cash, deposits and current asset investments (note 28)	95	106	–	–

Current asset investments comprise amounts placed with external fund managers. The majority of the investments can be converted into cash within seven days and the remainder within 30–90 days. The investments are with counterparties with strong credit ratings. All cash, deposits and current asset investments are receiving floating rates of interest at the market rates of their currency of denomination, with 63% of the total being held in sterling, 17% in US dollars, 15% in euros and the balance in a mix of other currencies.

18 Loan capital and borrowings

	Group 1998 £m	Group 1997 £m
Bank overdrafts	12	9
Bank loans repayable:		
Within one year or on demand	17	–
Between one and two years	29	42
Between two and five years	312	470
	358	512
Other borrowings repayable:		
Within one year or on demand	59	66
Between one and two years	138	59
Between two and five years	130	233
In five years or more	360	113
In five years or more – by instalment	95	126
	782	597
Total	1,152	1,118
Secured	–	1
Unsecured	1,134	1,100
Obligations under finance leases	18	17
Total	1,152	1,118
Amounts due within one year or on demand	88	75
Amounts due after more than one year	1,064	1,043
Loan capital and borrowings (note 28)	1,152	1,118

Certain borrowings are secured by either fixed or floating charges on various assets and certain subsidiary undertakings.

Borrowings shown above include:

(a) borrowings repayable by instalments any instalment of which falls due after five years totalling £259m (1997 £303m), with an average rate of interest payable of 9.9% (1997 9.9%);
(b) £100m 8³/₈% eurosterling bonds redeemable at par in 2000, (issued 1993);
(c) £125m 7¹/₄% eurosterling bonds redeemable at par in 2008, (issued 1998);
(d) £115m US$200m 6.75% bonds redeemable at par in 2004, (issued 1997);
(e) £60m US$100m 6.375% bonds redeemable at par in 2008, (issued 1998);
(f) £60m US$100m 7.125% bonds redeemable at par in 2018, (issued 1998); and
(g) bank loans repayable between one and five years of £341m (1997 £512m) have been classified according to the term of the committed facility under which they have been borrowed, although they are repayable within one year.

The funding policy of the Group is to maintain a broad portfolio of debt, diversified by source and maturity and to maintain committed facilities sufficient to cover seasonal peak anticipated borrowing requirements. Total committed facilities in excess of net debt at 31 December 1998 were £724m (1997 £888m). At 31 December 1998 the Group had available undrawn committed bank facilities of £654m (1997 £793m) of which £Nil mature in less than one year, £6m between one and two years and £648m in more than two years.

The Company had no borrowings at 31 December 1998 (1997 £Nil).

The finance costs of debt instruments are charged to the profit and loss account over the term of the debt at a constant rate on the carrying amount. Such costs include the costs of issue, any discount to face value arising on issue or any premium payable on maturity.

19 Financial instruments

A description of the policies relating to financial instruments is set out in the Operating and Financial Review on page 15, and also in the Accounting Policies on page 23. Short term debtors and creditors have been excluded from all the following disclosures other than within the currency risk disclosures.

(a) Interest risk management

Financial liabilities

Some 73% of the Group's net borrowings is at fixed rates of interest with a weighted average interest rate of 8.5% and a weighted average term of 6.4 years. The Group actively manages the level of floating rate debt. At 31 December 1998, the Group's net debt was 30% denominated in sterling, 63% in US dollars with the balance in a mix of currencies, principally Canadian dollars and euros. In 1997, the Group used forward starting swaps to fix interest rates on long-term instruments in advance of the finalisation of such instruments. Profits or losses arising on such swaps were included in the finance costs of the instruments to which they related and are being amortised over the life of the associated instruments.

After taking account of interest rate swaps, the currency and interest rate exposure of net borrowings as at 31 December 1998 was:

			Fixed borrowings		
	Net borrowings £m	Floating rate net borrowings £m	Fixed rate borrowings £m	Weighted average interest rate %	Weighted average time for which rate is fixed years
Sterling	316	73	243	7.6	5.7
US/Canadian dollar	696	166	530	8.7	6.7
Euro	45	44	1	6.0	1.6
Other currencies (net)	–	–	–	–	–
Net borrowings	1,057	283	774	8.5	6.4

The floating rate borrowings include bank debt bearing interest at rates based on the relevant inter bank rates in the US, Canada and Europe. These rates are fixed in advance for periods up to six months. The weighted average interest rate on floating net borrowings as at 31 December 1998 was approximately 5.7% (1997 6.3%).

Financial assets

The Group held £52m of instalment sale debtors and notes receivable due after more than one year, denominated in US dollars. Of these £35m are at fixed rates of interest with a weighted average fixed rate of 14.1% and a weighted average period to maturity of nine years. The remainder are at variable rates of interest with a weighted average interest rate of 10.4% and a weighted average period to maturity of 12 years.

(b) Exchange risk management

After taking into account the effect of forward exchange contracts, there are no material net monetary assets/liabilities of Group companies denominated in currencies other than the relevant Group company's own functional currency. The Group hedges its exposure to the translation of foreign currency net assets using foreign currency borrowings. The table below analyses the Group's net tangible assets and net debt at 31 December 1998.

	1998			
	Net tangible assets £m	Net borrowings £m	Net investment £m	1997 Net investment £m
Sterling	1,541	(316)	1,225	1,433
United States dollar	698	(666)	32	101
Canadian dollar	40	(30)	10	(8)
Other currencies (net)	103	(45)	58	19
	2,382	(1,057)	1,325	1,545

The Group operates a prudent hedging policy of its cross currency business trading cash flows. Currency exposures are netted by currency and hedged forward for up to 5 years using forward foreign exchange contracts. At the year end at least 70% of anticipated core currency transaction exposures for the following 12 months had been hedged.

The estimated current value of the foreign exchange forward contracts entered into to hedge future transaction flows is set out below based on quoted market prices.

	1998 Book value £m	1998 Current value £m
Foreign exchange forward rate contracts	–	(10)

19 Financial instruments continued

(c) Fair values

The estimated fair values of borrowings and the associated derivative financial instruments at 31 December 1998 are set out below. The fair value of quoted borrowings are based on year end mid-market quoted prices. The fair values of other borrowings and the derivative financial instruments are estimated by discounting the future cash flows to net present values using appropriate market rates prevailing at the year end.

Primary financial instruments held or issued to finance the Group's operations:

	Net carrying amount 1998 £m	Fair value 1998 £m
Short-term financial liabilities and current portion of long-term borrowings	(88)	(88)
Long-term borrowings	(1,064)	(1,107)
Cash at bank and liquid investments	95	95
Other financial assets	52	52

The difference between net carrying amount and estimated fair value reflects unrealised gains or losses inherent in the instrument based on valuations at 31 December 1998. The volatile nature of the markets means that values at any subsequent date could be significantly different from the values reported above.

(d) Hedges

As explained in the Operating and Financial Review on page 15, the Group's policy is to hedge the following exposures:
- Interest rate risk, using interest and currency swaps.
- Currency risk, using forward foreign currency contracts for foreign currency receipts and payments. Forward foreign currency contracts are also used for currency exposures on future year's forecasted sales.

The table below shows the extent to which the Group has off-balance sheet (unrecognised) and on-balance sheet (deferred) gains and losses in respect of financial instruments used as hedges at the beginning and end of the year. It also shows the amount of such gains and losses which have been included in the profit and loss account for the year and those gains and losses which are expected to be included in next year's or later profit and loss accounts.

All the gains and losses on the hedging instruments are expected to be matched by losses and gains on the hedged transactions or positions.

The Group used forward starting swaps to fix interest rates on long-term instruments in advance of the finalisation of such instruments. Any profits or losses arising on such swaps were included in the finance costs of the instrument to which they related and are being amortised over the life of the associated instrument. Consequently, the carrying value of the relevant asset or borrowing effectively includes the gain or loss on the hedging instrument. Such gains and losses are treated as deferred for the purpose of the table below:

	Unrecognised			Deferred		
	Gains £m	Losses £m	Total net gains (losses) £m	Gains £m	Losses £m	Total net gains (losses) £m
Gains and losses on hedges at 1 January 1998	–	(2)	(2)	1	(6)	(5)
Arising in previous years included in 1998 income	–	1	1	–	–	–
Gains and losses not included in 1998 income						
Arising before 1 January 1998	–	(1)	(1)	1	(6)	(5)
Arising in 1998 on pre 1 January 1998 contracts	–	(6)	(6)	–	–	–
Arising in 1998 on 1998 contracts	–	(3)	(3)	–	–	–
Gains and losses on hedges at 31 December 1998	–	(10)	(10)	1	(6)	(5)
of which:						
Gains and losses expected to be included in 1999 income	–	(4)	(4)	–	(1)	(1)
Gains and losses expected to be included in 2000 income or later	–	(6)	(6)	1	(5)	(4)

(e) Financial instruments held for trading purposes

The Group does not trade in financial instruments.

(f) Credit risk

The counterparties to the forward exchange contracts and term deposits are major international financial institutions with strong credit ratings. The Group continually monitors its positions and the credit ratings of its counterparties.

20 Other creditors

	Group 1998 £m	Group 1997 £m	Company 1998 £m	Company 1997 £m
Amounts falling due within one year				
Payments received on account	8	8	–	–
Trade creditors	134	130	–	–
Amounts owed to subsidiary undertakings	–	–	–	107
United Kingdom corporation tax	24	16	2	1
Overseas taxation	2	9	–	–
Advance Corporation Tax	–	34	–	34
Other tax and social security	22	25	–	–
Other creditors	61	53	–	–
Accruals and deferred income	163	153	9	8
Accrued dividends	8	8	8	8
Interim dividend payable on Ordinary shares	33	–	33	–
Proposed final dividend on Ordinary shares	99	96	99	96
	554	532	151	254
Amounts falling due after more than one year				
Other creditors	6	5	–	–
Accruals and deferred income	26	38	–	–
Overseas taxation	12	–	–	–
	44	43	–	–

21 Provisions for liabilities and charges

	Deferred taxation £m	Acquisition provisions £m	Other provisions £m	Total £m
Group				
Balances at 31 December 1997	11	1	31	43
Released to the profit and loss account in the year	–	–	(1)	(1)
Utilised in the year	–	–	(14)	(14)
Transferred to current taxation	(11)	–	–	(11)
Balances at 31 December 1998	–	1	16	17

Other provisions at 31 December 1998 are principally in respect of the repair of vacant properties, announced restructurings and future costs relating to previous business disposals.

22 Deferred taxation

	Provided 1998 £m	Provided 1997 £m	Not recognised 1998 £m	Not recognised 1997 £m
Group				
Capital allowances	–	13	(33)	(29)
Other timing differences	–	1	1	(2)
	–	14	(32)	(31)
Advance Corporation Tax	–	(3)	–	(17)
	–	11	(32)	(48)

The above figures exclude taxation payable in the event of the accumulated reserves of certain overseas subsidiary and associated undertakings being distributed as there is no present intention to distribute them.

23 Capital and reserves

	1998			1997		
	Authorised	Issued and fully paid		Authorised	Issued and fully paid	
	£m	Number m	Nominal value £m	£m	Number m	Nominal value £m
US$ Cumulative Preference shares	3	–	–	3	–	–
Convertible Cumulative Redeemable Preference shares of 20 pence each	60	227.5	45	60	227.5	45
Ordinary shares of 10 pence each	120	773.6	78	120	754.9	76
	183		123	183		121

Under the Share Savings Schemes operated by the Company employees hold options to subscribe for up to 4,366,049 (1997 4,353,929) Ordinary shares at prices between 271.58p and 349.46p per share exercisable by 2003.

Under the Executive Share Option Schemes operated by the Company, Directors and executives hold options to subscribe for up to 15,223,432 (1997 16,350,188) Ordinary shares at prices ranging between 234.48p and 483.75p per share exercisable by 2008. Under the Long Term Incentive Plan ("LTIP") operated by the Company, executives hold options to subscribe for 65,611 (1997 Nil) Ordinary shares, exercisable by 2005.

Options granted under the Share Savings Schemes are exercisable normally within a period of six months after the third or fifth anniversary of the SAYE contract. Options granted under the Executive Share Option Schemes are exercisable normally within a period commencing on the third anniversary and ending on the tenth anniversary of the date of grant. Options granted under the LTIP are exercisable normally within a period commencing on the second anniversary and ending on the seventh anniversary of the date of grant.

	Share capital			Share premium account
	Preference £m	Ordinary £m	Total £m	£m
Share capital and share premium account				
Balances at 31 December 1997	45	76	121	6
Issue of Ordinary shares in the year	–	2	2	2
Balances at 31 December 1998	45	78	123	8

The Company issued 17,900,535 Ordinary shares during the year pursuant to scrip dividend elections made by shareholders in respect of the 1997 final and 1998 interim dividends.

On 11 June 1998, 16,223 Ordinary shares were issued by virtue of the conversion of 59,793 Preference shares. A further 809,971 Ordinary shares were issued during the year on the exercise of options.

Non-equity shareholders' funds relate entirely to the Convertible Cumulative Redeemable Preference shares ("Preference shares"). These shares carry an entitlement to a dividend at the rate of 8.25p (net) per share per annum. They are convertible in any of the years up to 2003 into Ordinary shares of 10p each at a rate equivalent to 27.09 Ordinary shares for every 100 Preference shares and may be redeemed at £1 per share at any time after 30 April 2003 at the option of the Company and, in any event, will be redeemed at £1 per share on 31 July 2007. Holders of the Preference shares have one vote for every five shares held but only on a resolution for the winding-up of the Company or on a resolution affecting the rights attached to the shares or if the Preference dividend has remained unpaid for six months. Holders of Preference shares have the right on a winding-up to receive in priority to any other class of shares the sum of £1 per share together with any arrears of dividend.

23 Capital and reserves continued	Group £m	Company £m
Capital redemption reserve		
Balances at 31 December 1997	8	8
Utilised on issue of Ordinary shares in lieu of dividends	(1)	(1)
Balances at 31 December 1998	7	7

Other reserves	Company and its subsidiaries: Preference redemption £m	Company and its subsidiaries: Other £m	Associated under-takings £m	Group £m
Group				
Balances at 31 December 1997	3	1,382	(2)	1,383
Currency translation adjustments	–	4	–	4
Deficit on profit and loss account for the year	–	(272)	–	(272)
Provision for redemption premium	2	–	–	2
Adjustment for scrip dividends	–	56	–	56
Realisation of goodwill on disposals	–	5	–	5
Balances at 31 December 1998	5	1,175	(2)	1,178

Of the £4m gain on other net currency translation adjustments, a gain of £3m arises from the translation of foreign currency borrowings less deposits. The total cumulative goodwill eliminated against reserves at 31 December 1998 amounted to £1,061m (1997 £1,075m).

Other reserves	Preference redemption £m	Other £m	Total £m
Company			
Balances at 31 December 1997	3	2,460	2,463
Deficit on profit and loss account for the year	–	(120)	(120)
Adjustment for scrip dividends	–	56	56
Provision for redemption premium	2	–	2
Balances at 31 December 1998	5	2,396	2,401

24 Analysis of minority interests	Equity £m	Non-equity £m	Total £m
Balances at 31 December 1997	2	25	27
Minority interest in the profit on ordinary activities after tax	1	2	3
Contributions from minority shareholders	9	–	9
Dividends payable to minority shareholders	–	(2)	(2)
Purchase of minority interests	–	(25)	(25)
Balances at 31 December 1998	12	–	12

The non-equity minority interest was redeemed at par during the year.

25 Reconciliation of operating profit to operating cash flows

	1998 £m	1997 £m
Operating profit	182	310
Exceptional provision for impairment of operating assets	98	–
Cash payments in respect of other exceptional operating costs and provisions	(5)	(25)
Depreciation	136	124
Net loss on sale of tangible fixed assets	–	5
(Increase) decrease in stocks	(8)	10
(Increase) in debtors	(31)	(45)
(Decrease) increase in creditors	(3)	55
Other items	(9)	9
Net cash inflow from operating activities	360	443

26 Purchase of subsidiaries and minorities

	1998 £m	1997 £m
Tangible fixed assets	46	6
Net current (liabilities) assets excluding cash	(2)	5
Net assets	44	11
Goodwill (note 9)	3	32
	47	43

	1998 £m	1997 £m
Satisfied by:		
Cash paid	47	43
Less: cash acquired with subsidiaries	(1)	–
Cash outflow on purchase of subsidiaries	46	43
Borrowings acquired	1	–
Consideration	47	43

There were no material differences between the book values of assets and liabilities in the acquired entities' books immediately before acquisition and the fair values in the table above. In addition, no changes were necessary as a result of aligning accounting policies. Acquisitions in the year principally consist of Parkdean Holidays and two casinos in Belgium, both in March 1998. No adjustments have been made to the provisional goodwill arising on acquisitions made in 1997.

27 Sale of businesses and investments

	1998			1997
	Businesses £m	Investments £m	Total £m	£m
Net assets disposed of:				
Tangible fixed assets	11	–	11	2
Interests in associated undertakings and investments	(1)	–	(1)	930
Stocks	–	–	–	20
Debtors	4	220	224	46
Creditors	–	(1)	(1)	(22)
	14	219	233	976
Goodwill previously eliminated against reserves	5	–	5	–
Profits less losses on disposal before tax (net)	(1)	–	(1)	(40)
Sales consideration	18	219	237	936
Consisting of:				
Sales proceeds less related costs	18	219	237	532
Cash disposed of with subsidiaries	–	–	–	(2)
Cash inflow from sale of businesses and investments	18	219	237	530
Accrual for future related costs	–	–	–	(8)
Deferred consideration receivable	–	–	–	414
	18	219	237	936

Cash received from sale of investments represents the receipt of part of the deferred consideration from the sale of Rank Xerox in 1997.

28 Reconciliation to net debt	1998 £m	1997 £m
(Decrease) increase in cash in the year	(14)	30
(Increase) in debt and lease financing	(24)	(96)
Movement in liquid resources (a)	–	(3)
(Increase) in net debt from cash flows	(38)	(69)
Loan and finance leases acquired with subsidiary	(1)	–
New finance leases	(9)	(6)
Foreign exchange differences	3	(7)
(Increase) in net debt in year	(45)	(82)
Net debt at 1 January	(1,012)	(930)
Net debt at 31 December	(1,057)	(1,012)
Cash, deposits and current asset investments (note 17)	95	106
Loan capital and borrowings (note 18)	(1,152)	(1,118)
Net debt at 31 December	(1,057)	(1,012)

(a) The movement in liquid resources consisted of purchases of deposits and investments of £9m (1997 £14m) and sales of £9m (1997 £17m).

29 Analysis of net debt	31 December 1997 £m	Cash inflow (outflow) £m	Acquisitions (excluding cash and overdrafts) £m	Other non-cash changes £m	Foreign exchange differences £m	31 December 1998 £m
Cash in hand, at bank	90	(11)	–	–	–	79
Overdrafts	(9)	(3)	–	–	–	(12)
		(14)				67
Debt due after one year	(1,026)	(74)	(1)	52	3	(1,046)
Debt due within one year	(66)	42	–	(52)	–	(76)
Finance leases	(17)	8	–	(9)	–	(18)
		(24)				(1,140)
Liquid resources	16	–	–	–	–	16
Total	(1,012)	(38)	(1)	(9)	3	(1,057)

Liquid resources comprise current asset investments which, as described in note 17, represent amounts readily convertible into cash.

30 Directors

(a) Directors' interests

The Directors' interests in shares or stocks of the Company, including options to purchase Ordinary shares under the terms of the Group's executive share option schemes, Long Term Incentive Plan ("LTIP") and share savings schemes, are detailed in the Remuneration Report. Details of options to subscribe for Ordinary shares of the Company granted to and exercised by Directors, or which lapsed, in the year ended 31 December 1998 are also detailed in the Remuneration Report.

(b) Total emoluments of the Directors of The Rank Group Plc	1998 £000	1997 £000
Fees	139	133
Basic salaries, allowances and taxable benefits	1,373	1,508
Bonuses	–	184
Pension contributions	265	287
Gain from exercise of share options	–	11
Payments to former Directors under the LTIP	155	–
Compensation for loss of office – former Chief Executive (including cost of pension enhancement – £477,400)	874	–
Compensation for loss of office – former Director (including cost of pension enhancement – £149,000)	606	–
Total emoluments	3,412	2,123
(c) Emoluments of Chairman	291	269
(d) Emoluments of highest paid Director (including pension contributions)	629	755

(e) Company policy on the remuneration of Directors and details of the remuneration of each Director are set out in the Remuneration Report on pages 3 to 6.

31 Employees

Employee costs	1998 £m	1997 £m
Wages and salaries	466	431
Social security costs	39	34
Other pension costs	11	10
	516	475

Average number of employees by geographical area	1998	1997
United Kingdom	32,404	31,432
North America	10,826	10,334
Rest of the World	2,355	1,906
Continuing operations	45,585	43,672
Discontinued operations	–	26
Average in year	45,585	43,698

Provision for pension and similar obligations

United Kingdom The Group has two pension schemes for UK employees both of which are contracted-out of the State Earnings Related Pension arrangements. The schemes are externally funded under separate trusts and the funds' assets are held separately from Group assets. The accounts of both schemes for the year ended 5 April 1998 have been reported upon by their auditors without qualification.

The Rank Pension Plan is a defined benefit scheme with pensions fixed by reference to final pay and length of service. The market value of the funds' assets at 5 April 1998 was £509m (1997 £412m) excluding the value of annuities purchased to match pensions in payment.

Formal actuarial valuations of the Plan are carried out triennially by an independent actuary, William M. Mercer Limited, using the projected unit method. At the last valuation at 5 April 1996, the actuarial value of the assets was sufficient to cover 107% of the accrued benefits allowing for expected future increases in earnings. The main actuarial assumptions adopted were that, over the long-term, the rate of return on investments would be 9.5% pa, the rate of increase of pensionable remuneration would be 7% pa and the rate of pension increases would be 3% pa.

The pension charge for the year to 31 December 1998 was £6m (1997 £5m). The charge was determined after spreading the expensing surplus of £11m (1997 £11m) over the average remaining service lives of the active members of the Plan.

The actual Group cash contributions to the Plan in the year to 31 December 1998 totalled £6m (1997 £5m). At 31 December 1998 there was a prepayment in debtors of £12m (1997 £12m) resulting from the difference between pension costs charged in the accounts and amounts funded to date.

The Rank Money Purchase Pension Scheme is a defined contribution scheme with benefits which depend on the contribution levels and the emerging investment performance. The market value of its assets at 5 April 1998 was £27m (1997 £26m). Group contributions to this scheme in the year to 31 December 1998 totalled £1m (1997 £1m).

USA The Group operates defined contribution schemes in the USA. Group contributions to these schemes totalled £3m (1997 £4m).

Other countries Group contributions to schemes for employees in other countries totalled £Nil (1997 £Nil).

32 Contingent liabilities

	1998 £m	1997 £m
Group		
Guarantees by the Company and by subsidiary undertakings, and uncalled liability in respect of partly paid shares	330	214

The Group is involved in a dispute with Serena Holdings Limited over the purchase consideration of an acquisition which has been referred to an expert for determination. The dispute centres upon the parties' contentions in relation to the accounts and the profits of the businesses based upon which an additional purchase consideration may be payable. The Directors are strongly resisting the payment of any further sum. At the present time the outcome to the Group cannot be determined and the potential liability cannot be quantified. However, it is the opinion of the Directors that it is unlikely that the outcome of this dispute will have a material effect on the Group's financial position.

A subsidiary undertaking is involved in class action suits in the USA. The actions are being vigorously contested and the Directors believe that none of these actions will result in a material adverse effect on the financial condition of the Group.

32 Contingent liabilities continued

	1998 £m	1997 £m
Company		
Guarantees of advances to subsidiary undertakings and uncalled liabilities in respect of partly paid shares	1,588	1,091

No security has been given in respect of any contingent liability.

33 Commitments

Future capital expenditure At 31 December 1998 commitments for capital expenditure amounted to £190m (1998 £144m) for the Group and £Nil (1997 £Nil) for the Company.

Group operating lease commitments At 31 December 1998 commitments to make payments under operating leases in the following 12 months was:

	Land and buildings		Plant and machinery	
	1998 £m	1997 £m	1998 £m	1997 £m
Leases expiring in one year	1	2	–	–
Leases expiring in two to five years	9	9	2	2
Leases expiring in more than five years	43	27	–	–
	53	38	2	2

Advance payments under supply contracts

At 31 December 1998, the Group had commitments to make advance payments in future years under film processing and video duplication contracts of £75m.

34 Related party transactions

During the year the Group traded with its joint venture investment, BL Rank Properties Ltd ("BLRP"). The main transactions were equity funding of £23m and the sale of properties at fair value for consideration of £161m resulting in a net profit of £18m of which £9m has been deferred and set against the Group's investment in BLRP. £9m of rental payments to BLRP were made in the year.

During the year the Group received management fees of £1m from Universal Studios Florida.

The Group recharges the Rank Group UK Pension Schemes with the costs of administration and independent pension advisers borne by the Group. The total amount recharged in the year ended 31 December 1998 was £1,506,285 (1997 £1,168,000).

The Rank Group Plc ("Rank") owns directly or indirectly 100% of the ordinary share capital and voting rights of the following companies. There are also holdings of preference shares which are separately disclosed. The companies are incorporated in Great Britain unless otherwise indicated after the company name. The principal operations are carried out in the country of registration.

Deluxe	Principal activities
Deluxe Laboratories Limited	Film processing laboratory
Deluxe Laboratories Inc. (USA)	Film processing laboratory
Deluxe Toronto Limited (Canada)	Film processing laboratory
Deluxe Video Services Inc. (USA)	Video duplication and distribution
Deluxe Video Services GmbH (Germany)	Video duplication and distribution
Deluxe Video Services, S.L. (Spain)	Video duplication and distribution
Deluxe Video Services Limited	Video duplication and distribution
Deluxe Video Services S.A. (France)	Video duplication and distribution
Pinewood Studios Limited	Film production studios, post-production facilities and services
Hard Rock	
Hard Rock Cafe International (USA) Inc. (USA)	Operates and franchises Hard Rock Cafes worldwide
Holidays	
Butlins Limited *(Rank also owns indirectly all the 6% cumulative preference shares)*	Family Entertainment Resorts
Haven Leisure Limited	Caravan/chalet parks in the UK, France, Spain and Italy
Oasis Villages Limited	Holiday villages
Resorts USA Inc. (USA)	Outdoor World holiday memberships at caravan park resorts, the sale of timeshares, second homes and land
Warner Holidays Limited	Holidays just for adults
Rank Holidays Division Limited	Holding company
Leisure	
Grosvenor Casinos Limited	London and provincial casinos
Mecca Bingo Limited	Social and bingo clubs
Odeon Cinemas Limited	Film exhibition
Rank Entertainment Limited	Operation and development of multi-leisure centres and nightclubs
Rank Leisure Machine Services Limited	Amusement machine hire and sales
Tom Cobleigh Plc	Operation and development of a managed public house estate
Rank Leisure Division Limited	Holding company
Holding & Other Companies	
Rank America Inc. (USA)	Owns the Group's investments in the USA
Rank Group Finance Plc	Funding operations for the Group
Rank Holding España SA (Spain)	Owns the Group's investments in Spain
Rank Holdings (France) SA (France)	Owns the Group's investments in France
Rank Holdings (Germany) GmbH (Germany)	Owns the Group's investments in Germany
Rank Holdings (Netherlands) BV (Netherlands)	Owns the Group's investments in Rank America Inc. and other overseas subsidiary undertakings
Rank Leisure Holdings Plc	Owns the Group's investments in the UK operating subsidiary undertakings, Rank Overseas Holdings Limited and BLRP
Rank Orlando Inc. (USA)	Owns the Group's investments in Universal City Florida Partners
Rank Orlando II Inc. (USA)	Owns the Group's investments in Universal City Development Partners
Rank Overseas Holdings Limited	Owns the Group's investment in Rank Holdings (Netherlands) BV

A full list of subsidiary undertakings will be included in the Company's Annual Return.

Universal Studios Escape

In the segmental analysis set out on pages 24 and 25, the Group's interests in Universal City Florida Partners ("UCFP") are referred to as Universal Studios Florida, and the interest in Universal City Development Partners ("UCDP") and the Universal Rank Hotel Partners ("URHP") as "Universal Studios Escape developments". The first two partnerships are 50% owned between the Group and Universal Studios Inc., a subsidiary of The Seagram Company Ltd ("Seagram"), while the Group has 25% of URHP. The other partners in URHP are Seagram (25%) and Loews Corporation ("Loews") (50%)

UCFP operates Universal Studios Florida, the film and television studio and motion picture theme park in Orlando, Florida. UCDP is developing an 821 acre site in Orlando, Florida on which is situated Universal Studios Florida and on which is being constructed a second theme park ("Universal's Islands of Adventure"), an entertainment zone ("Universal CityWalk") and associated infrastructure.

The first phase of "CityWalk" opened in February 1999, while "Islands of Adventure" is planned to open in May 1999. The present and future theme park operations are and will be managed by Universal Studios Inc.

URHP is developing three resort hotels in the same location which will be managed by Loews. The first hotel, the Portofino Bay Hotel, will open in 1999.

A summary of the Group's share of the financial statements of the three partnerships is set out below.

	1998 £m	1997 £m
Profit and loss account (Group share)		
Turnover	114	112
Operating profit	27	25
Net interest payable	(5)	(5)
Profit before tax	22	20

	26 December 1998				27 December 1997		
		Development partnerships					
	Universal Studios Florida £m	Universal City £m	Hotels £m	Total £m	Universal Studios Florida £m	Development partnerships £m	Total £m
Balance sheet (Group share)							
Fixed assets	153	479	27	659	156	265	421
Current assets							
Cash and deposits	–	10	3	13	–	3	3
Other	28	52	1	81	21	25	46
	28	62	4	94	21	28	49
Creditors (amounts falling due within one year)							
Other	(30)	(43)	(5)	(78)	(23)	(22)	(45)
Net current assets (liabilities)	(2)	19	(1)	16	(2)	6	4
Total assets less current liabilities	151	498	26	675	154	271	425
Creditors (amounts falling due after more than one year)							
Loan capital and borrowings	(87)	(297)	(14)	(398)	(88)	(161)	(249)
Net assets	64	201	12	277	66	110	176
Additional Group investment	43	33	2	78	44	21	65
Total carrying value	107	234	14	355	110	131	241

	1998				1997		
	Universal Studios Florida £m	Development partnerships Universal City £m	Hotels £m	Total £m	Universal Studios Florida £m	Development partnerships £m	Total £m
Cash flow (Group share)							
Operating profit	27	–	–	27	25	–	25
Depreciation and amortisation	17	–	–	17	17	–	17
Change in working capital	–	–	–	–	(4)	–	(4)
Cash flow from operating activities	44	–	–	44	38	–	38
Interest paid (net)	(5)	(18)	–	(23)	(5)	(9)	(14)
Purchase of tangible fixed assets	(15)	(211)	(15)	(241)	(12)	(116)	(128)
Cash inflow (outflow) before financing	24	(229)	(15)	(220)	21	(125)	(104)
Distributions to partners	(24)	–	–	(24)	(33)	–	(33)
Contributions by partners	–	98	6	104	–	50	50
Increase in net debt	–	(131)	(9)	(140)	(12)	(75)	(87)
Opening net debt	(88)	(156)	(2)	(246)	(74)	(82)	(156)
Currency translation adjustments	1	–	–	1	(2)	(1)	(3)
Closing net debt	(87)	(287)	(11)	(385)	(88)	(158)	(246)

Five Year Review

Year ended 31 December	1998 £m	1997 £m	1996 £m	1995 Proforma £m	1994 Proforma £m
Turnover					
Current operations	**2,057**	2,009	1,838	1,640	1,532
Former operations	**–**	3	246	279	303
	2,057	2,012	2,084	1,919	1,835
Operating profit before exceptional items					
Current operations	**280**	310	278	248	240
Former operations	**–**	–	12	8	(1)
	280	310	290	256	239
Exceptional items charged against operating profit	**(98)**	–	(177)	–	–
Non-operating items (including share of associates)	**(208)**	(43)	(62)	236	3
Universal Studios Florida	**22**	20	14	10	10
Rank Xerox before restructuring costs	**–**	–	–	187	210
Rank Xerox restructuring costs	**–**	–	–	–	(62)
Other associates and joint ventures	**1**	–	–	(1)	–
Dividends receivable from Rank Xerox	**–**	20	49	–	–
Interest (net)	**(48)**	(47)	(49)	(44)	(74)
(Loss) profit before tax	**(51)**	260	65	644	326
Tax	**(55)**	(64)	(96)	(124)	(113)
Minority interests	**(3)**	(3)	(3)	(3)	(5)
Preference dividends and appropriations	**(21)**	(20)	(21)	(21)	(21)
(Loss) earnings	**(130)**	173	(55)	496	187
(Loss) earnings per Ordinary share	**(17.0)p**	21.2p	(6.6)p	59.7p	22.6p
Earnings per Ordinary share before exceptional items	**23.0p**	26.5p	24.1p	31.4p	27.2p
Total Dividend per Ordinary share	**18.50p**	18.00p	17.00p	15.75p	13.25p

Year ended 31 December	1998 £m	1997 £m	1996 £m	1995 Proforma £m	1994 Proforma £m
Group funds employed					
Fixed assets	**1,872**	1,863	1,574	1,518	1,396
Investments	**385**	252	1,124	622	779
Other assets (net)	**128**	442	54	127	47
Total funds employed at year end	**2,385**	2,557	2,752	2,267	2,222
Financed by					
Ordinary share capital and reserves	**1,098**	1,302	1,582	1,604	1,206
Preference share capital including premium	**218**	216	214	212	209
Minority interests	**12**	27	26	25	48
	1,328	1,545	1,822	1,841	1,463
Net debt	**1,057**	1,012	930	426	759
	2,385	2,557	2,752	2,267	2,222
Average number of employees (000's)	**45.6**	43.7	43.5	39.1	39.7

The proforma results for the years 1994 to 1995 are those of The Rank Organisation Plc and its subsidiaries. These results have been restated to reflect the changes in accounting policies relating to casinos' turnover and fixed asset revaluations. In addition, operating profit has been restated to identify exceptional items separately.

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The Rank Group Plc

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1999 Financial calendar

1 February – Dividend payment on Convertible Preference shares

21 April – Annual General Meeting

30 April – Final Dividend payment on Ordinary shares

2 August – Dividend payment on Convertible Preference shares

5 August – Interim results announcement

8 October – Interim Dividend payment on Ordinary shares